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Intra day trading on FOREX differs by high risk, high labor input, long working days, work under constant stress and chronic weariness. The specific conditions of intra day trading require a speculator's fast reaction, absolute discipline, calmness and endless patience.

Introduction

Intra day trading, when a position is open and liquidated within one day (24 hours), must be considered as one of the most complicated types of trade and, nevertheless, most widespread among independent individual traders. Its popularity among them can be basically explained by some subjective reasons. Mainly, it might be connected to the small size of investment capital and a trader's desire to receive the greatest possible advantages from margin trading with a large leverage. (As I have already mentioned, such a definition as "day trade" is primarily considered an artificial one. The FOREX market works round the clock, 5 days a week, and a trader does not have and cannot have obligations to liquidate his positions the same day, even if they have been open without special necessity. Therefore, talking about short-term trading, I mean positions held for a period from a few minutes to a few days.)

Short-term trading can be considered extremely difficult, since its results are greatly influenced by market noises having significant amplitude – sometimes as big as the average amplitude of daily fluctuations. Practically all short-term trading is conducted on market noises, and the trader's problem consists mainly of catching small and medium-sized fluctuations, basically from several pips and up to a couple hundred pips.

The advantages of an intra day trade are obvious. First of all, it is the opportunity to work with small investment capital by taking numerous positions during the day and placing very tight stops. As for profitability, it can also be more preferable than a long-term trading, but probably not all the time. That closes a very short list of advantages of intra day trading.

All intra day trading's other distinctive features can be defined as passive, since they basically have a negative character. Intra day trading on FOREX differs by high risk, high labor input, long working days, work under constant stress and chronic weariness. The specific conditions of intra day trading require a speculator's fast reaction, absolute discipline, calmness and endless patience. But the real key to success can be only an effective and reliable trading technique specially created for this type of trading, which would allow a trader to make optimal decisions in the conditions of limited time and market space.

Chapter 1

Planning helps reduce or even completely eliminates the influence of various negative emotional and psychological factors.

Principles of the intra day trading plan.

Any trade should begin with scheduling, and can't be done without it. The planning of each transaction is very important. Planning helps reduce or even completely eliminates the influence of various negative emotional and psychological factors. It must be done in advance, to prevent the necessity of making important decisions in limited time conditions, when the probability of making a ridiculous mistake grows considerably. Such an approach is absolutely necessary for intra day trading, and otherwise it would be simply impossible to have any chance for eventual success.

In addition to the choice of a currency pair, preliminary planning of each intra day trade includes four basic elements. Decisions should be made in advance, and a trader has to define:

1. Where to enter the market with a long or short position;
2. Where to cut loss (point of placing a stop-loss order);
3. Where to take profit;
4. Whether or not a new position will be open in an opposite direction (reverse), in case the stops are triggered.

Having the answers to all four questions prior to the beginning of a trade will make an ideal plan. However, ideal planning in the real market isn't always possible. Frequently, preliminary plan requires some adjustment in accordance with constantly changing market conditions. It's almost impossible to foresee all the possible situations in advance, and the importance of each separate element of the trade planning is unequal.

Therefore, I follow two main rules:

1. **I do not begin a trade if I haven't decided at least two first elements, or if both or even one of them are missing from my trading plan.**
2. **The correction of a preliminary plan can occur only inside a basic, accepted-in-advance trading strategy. For example, some minor details can vary in the plan, but if the plan is already in the process of realization, I can't change it.**

(The basic elements 3 and 4 of a preliminary plan could be considered less important details of a trading plan).

The sequence of building a trading plan using the four elements stated above should be done according to the priority which we discuss next.

Chapter 2

Stops placing rules and technique.

The stop levels should be determined in accordance with one of the principles of the method, which states that the market has only two possible directions in which to go. Therefore, the stops should be placed only where the probability of continuation of a movement in the direction against your position sharply grows. The stops for liquidation of long positions should be placed at the point where the market submits a signal on opening of a short position. The same is true for the opposite scenario. For this reason, in many cases and according to my strategy, I liquidate a losing position and simultaneously open a new one in the opposite direction.

If for any reason you can't determine a level of placing stops in advance, it is not worth opening a position at all. Such a situation happens in my practice frequently. The problem basically arises when I search for an opportunity to open a position in the direction opposite to the current market movement. In order to solve this problem, I apply some money management principles and have one more rule to follow:

If I cannot find an acceptable level for placing stops in a sufficient proximity from the current market price, I refrain from making a transaction until the market builds to one, which will include all the necessary elements.

(Since we are talking here about intra day trading, sufficient proximity can be considered as any distance anywhere from 20 pips and up to an average daily range of the particular currency pair you are dealing with at the present moment.)

An obligatory condition should be the binding stops to a technically significant level, i.e., to support, resistance or a trend line. Stops should be placed only where the probability of continuation of a movement in the direction against your position sharply grows.

As far as I know, lots of traders usually place stops considering money management reasons only. In such cases, the stops are placed on some fixed distance from a position open price, and typically not further than 30-50 pips. Sometimes, a trader has some fixed amount in mind, which he allows himself to lose in one trade. Technical levels such as trend lines, supports or resistances (frequently being close at a short distance behind the stops) are not taken into consideration. Such a practice results in stops that are triggered at the most improper moment. Too frequently, a prospective and potentially profitable position is liquidated a loss is taken.

To avoid such situations, here is another rule I always follow:

No stops must be placed based on reasons of money management only. The binding of a stop should always be done to a specific technical level. If the nearest suitable technical level lies on a distance more than a trader can afford to lose in one transaction, he should refrain from making a trade until the market comes close enough to such an appropriate level.

In some cases, it might be necessary to open a position against the current market movement, considering the opportunity to catch the moment of a market turn. For this purpose, a position needs to be opened nearby the assumed top or bottom a task that is very difficult to make with precise accuracy. Then, the technique I call "postponed stops" can be applied. "Postponed stops" become attached not to a specific price level, but to some specific time. More often, the postponed stops attach to the end of a trading day,

session or moment when the market finally builds a new, brightly expressed technical level. This is especially true if this new level can become a new top or bottom on which I will be able to put my new stop. Even in these cases, however, I have to be insured against possible excessive losses and place a “safety stop” outside a possible range. This range is the level, which the market probably won’t achieve at the present time. Usually, I place these stops within the limits of 100-150 pips from the price at which my position was opened. A “safety stop” should also be bound to a certain technical level. I cancel a “safety stop” when a “postponed stop” becomes invalid and a suitable technical level at which to place stops is found.

A stop shouldn't be canceled under no circumstances or a trade will be conducted without using stops. A stop can be moved (if necessary) in one direction only – closer to an open position price. In order to preserve a current floating profit, a “trailing stop” can also be used. When moving stops, you should always place a new one first and then cancel the old one.

Chapter 3

Entering the market. How to open a new position.

A new position opening technique is the next most important element of preliminary trade planning. The rules of an opening of a new position and entering the market are numerous and require very precise adherence. Because we are discussing intra day trading, the choice of an entry point represents an especially important and difficult task, due to the limited time and space, which doesn't exceed the average daily range of any given exchange rate. First, we should always remember and consider the fact that, during an intra day trade all trading activity reflects only a market "noise". In other words, the result of any single trade is greatly influenced by the casual movements of the market and its chaotic fluctuations of significant amplitude, comparable to an average daily range. Therefore, the tactics which can and should be applied to intra day trading can be characterized as the "hit and run" technique.

How to choose an entry point.

The choice of an entry point should be based on technical signals, which are submitted by the market when it comes to a critical level defined by a trader in advance. According to this rule, a new position opening point should be at the closest possible distance from the technical level, which you should define as critical at the present moment.

A certain line drawn on the chart (being a support or resistance, trend line, or border of some formation) should be considered as the critical level. In some cases, a narrow price range can also be defined as a critical zone; above it, the market submits a "buy" signal and below it a "sell" signal. A "long" position should be opened ahead of a support and a "short" position should be opened ahead of resistance. **(Figure 4.1)** When done so, the stops should be placed on the opposite side of the line, dividing the market space into two different parts.

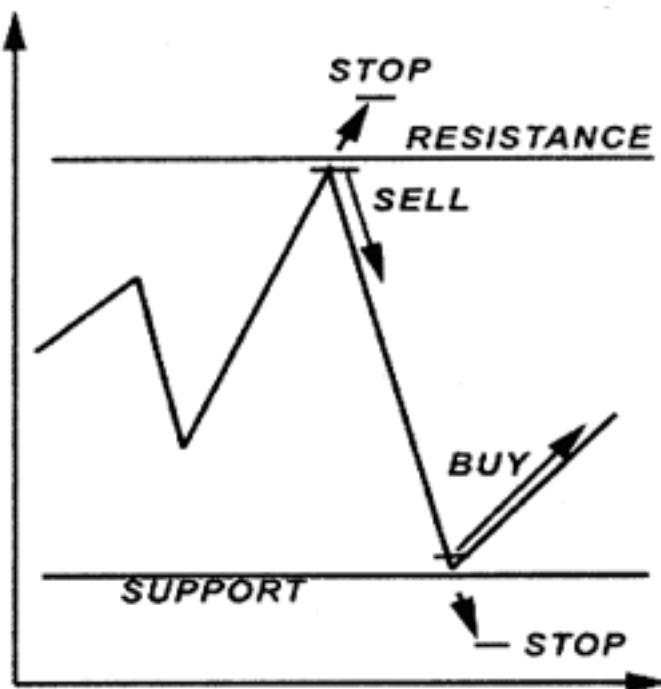


Figure 4.1.
Commonly known recommendations: "Buy" ahead of a support and "Sell" ahead of a resistance.

(Below the line, a short position is preferable; and above the line, go "long". Since we have already discussed this issue in details in the chapter devoted to trading signals, however, I will not repeat myself.)

Entry timing rules

1. There should be some period of time between the moment of making a decision about opening a new position, and actual transaction execution. This period of time gives a trader an opportunity to reconsider his decision and to abort it if necessary. It also prevents him from making improperly justified and impulsive decisions.

Such an approach guarantees you against making impulsive and insufficient decisions. It will save you a lot of worry and money. The duration of this period can fluctuate from several minutes to several hours. As was already indicated above, no transaction could be executed before the levels and conditions of protective stops for a new position are determined. The duration of this period will also give you an opportunity to once again reconsider your trading plan and, if necessary, to introduce additional corrective amendments into it. In some cases, such a period of expectation can result in radical changes to the initial plan, and even in its complete rejection.

Often, the same price level gives an opportunity for opening positions in opposite directions within the same trading day. Conditions often come after the market completely fulfills one trading signal and creates an opportunity for entering the market in the opposite direction. **(Figure 4.2)**

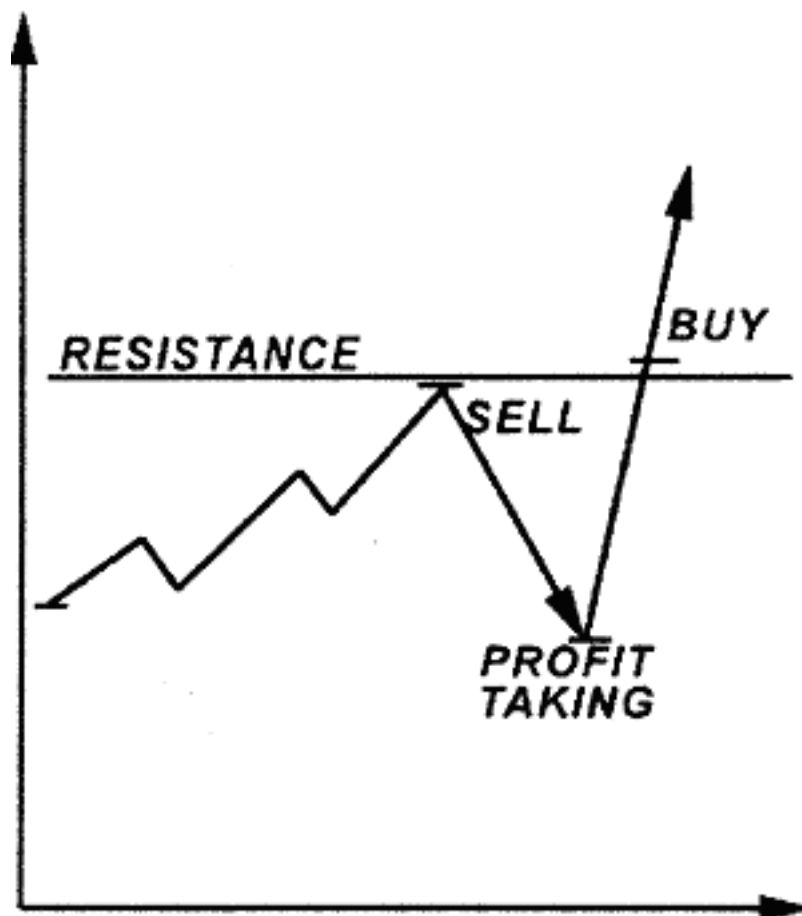


Figure 4.2

2. Generally speaking, any position (if open in the direction of the current market's movement) will give a trader an appreciable statistical advantage in the prevalence of profitable trades over unprofitable ones. This advantage amplifies if

such a position opens at the moment of highest market activity and greatest speed of the move.

Such a trading tactic is the most conservative and safest one. Even if it seems that such an approach lowers the average size of the potential profit, it gives a statistical advantage the prevalence of profitable trades over unprofitable ones. This tactic can also be considered the least stressful because, in most cases, some profit will be generated almost immediately after opening a position.

I open the overwhelming majority (75-80%) of new positions in the direction of the current movement of the market. The statistics of profitable and unprofitable trades show that the majority of profitable trades were accomplished by opening a position in the direction of the current market movement. I am absolutely sure that if you follow the rule of opening new positions only "in the market" but not against it, the statistical prevalence of profitable trades over unprofitable ones would be overwhelming.

Such conditions often come after the market completely fulfills one trading signal and creates an opportunity for entering the market in the opposite direction

Planning most trades in advance provides some additional comfort to a trader. In this case, positions can automatically be taken in accordance with the preliminary designed plan at the desired price levels. There will be no need to monitor the market constantly, and, most of the time, I use a limit or an entry stop order for opening the initial position. I do this even if I'm not going anywhere and am only watching the market. There are several advantages to such a trading technique:

- First of all, I'm saving my time, and if the position according to my plan will be taken using a limit order, I can place a protective stop simultaneously. After that (if no reverse was planned), I have nothing to worry about and there is no need to watch the price action at all.
- In case the position should be taken through an entry stop order, then all I need is to set an alarm. When the computer gives me a signal that the order is executed, then I place protective stops and once again have nothing to worry about and can spend my time doing something else besides watching the market.
- Automatic position entry also saves worry. It gives me a feeling that I'm in control of the situation at any moment. I feel myself being in charge of the trading process, since I chose the price where to enter and exit the market, as well as where to give up if things turned bad for me. If, for some reason, the market didn't reach my projected price level, I consider it as the market's own problem and there was no good trading signal or price to enter it.
- Automatic order execution also allows me to enter and exit the market at the exact price I planned from the very beginning, and not to reconsider my previous trading plan too often. In case the position opens through an entry stop order, I'm not missing the move if the market is moving too fast.
- Such a technique also supports my money management requirements and allows me to calculate my potential losses in advance. *(I open up to 85-90% of my positions using this technique, and the overwhelming majority of them are in the direction of the current movement of the market.)*

3. If, in accordance to a trading plan, the position should be opened in the direction opposite to the most current movement of the market, it would be better to do it during the least market activity and its slowest movement.

Many traders have failed and were compelled to leave business forever because their basic tactics for a trade were mostly based on attempts to catch the moments of the market reverse. It is incredibly difficult and practically unreal to catch the exact moment of change in the trend of the market direction, especially trading short-term contracts. In longer term trading, this issue looks a bit easier and can be successfully performed in some cases. Using the “Common Sense Trading Technique” often allows me to catch the price close to extreme with a relatively high share of probability, but it also works well in case my interest at the moment is not higher profit but rather the safest way to make some money.

Because the trend has high momentum and inertia, the reverse process usually takes a significant period of time in proportion. Therefore, it is possible to open position in the direction opposite to the direction of a previous or current market's movement only when the market calms down a bit and shows signs of inability of further movement in the initial direction. The speed of its movement should be considerably reduced, and the market would be moving sideways before it gives a chance to open a new position. If the market stops moving during some period of time and does not form new local extremes, you can think of opening a new position in the opposite direction. The details will be described in the templates of this course.

4. The most effective trading tactic can be considered the one that assumes a new position opening only in the most probable direction of movement of a day. A good trading plan should never be based on possible retracement of the main move. It's also dangerous to open a new position against the main direction of a day movement, if the market has already this direction. The less time remaining until the end of a trading day (24 hours), the lesser is the probability that the market will suddenly change the direction of the main intra day movement to the opposite.

This recommendation also follows directly from the philosophical concept of the method. First of all, the market is not a sewing machine in which the needle runs up and down with identical amplitude and speed. Usually, if the market is active enough, it has a highly visible intra day basic direction.

Statistically, before a reversal, there should be a certain period of the market hesitation which a trader can use either for liquidation of the profitable position or for planning to open a new one in the opposite direction. However, all this can be correct and will work only when the market has not yet chosen the direction of the main intra day trend, and has not finished formation of a daily trading range. The market also requires some time to reverse and to begin its movement towards the opposite side of the previously established range – especially if there is not much time left before the end of the day and the average amplitude hasn't been seen yet. Therefore, at the opening of new intra day short-term positions, I consider the following two rules useful:

5. Do not open new positions on the European currencies against USD at the beginning of a trading day or during the Asian trading session.

This rule is also connected to the fact that, more often than not, the increase in activity of European exchange rates begins only after the opening of the European trading session. During the Asian session, the rates of European currencies against USD and other not Asian currencies trade passively most of the time in a narrow range, demonstrating classical behavior of the market in a narrow “side trend”. There are rare exceptions to this rule, such as when I consider making a safe short (20-40 pips) trade

with tight stops and to liquidate the position prior to the beginning of the European session. This situation does not happen very often, and I try to not make many of these trades. From the time when I was an absolutely green novice and traded without stops, I remembered well that the longest lasting positions were targeted for a fast profit. Therefore, I don't recommend such trades to my students (especially, beginners), and I don't plan to describe this technology in the given course.

The over kind of exception occurs in cases when, during the Asian session, the rate of the European currency reaches some critical level – definition of which is possible analyzing the longer-term charts like Daily, Weekly or Monthly. In these cases, it is necessary to react to the signal received, even if such situations happen very rarely.

6. I do not open new positions against the major market move of the day after the beginning of the New York trading session, and especially after ending of the European session.

It is not so difficult to determine where the main movement of a day has been directed. In most cases, it could be clearly seen on the charts by the closing time of the European session. It is characterized by a highly visible intra day trend and also by expansion of the intra day range, which has occurred during the entire previous period of time from the beginning of a current trading day.

The only case in which you can accept some risk and open a new position against the main movement of a day during the New York session is as follows:

1. The market has reached one of the main technical levels such as a major support or a major resistance. This level shouldn't have only local intra day significance, but it should be easily determined on Daily charts as a minimum.
2. The daily range has already exceeded its average typical range for the certain currency by the time the major technical level was achieved.
3. The main move of the day was formed as a result of an impulsive market reaction to someone's comment or market news.

In that case, there could be a possibility for a counter-trade with stops placed outside of the most current extreme, major support or resistance zone. However, the probability of making a profitable trade in such a situation does not usually exceed 50%.

Trading signals and basic trading strategies and techniques.

Trading signals, which I use in my method, are not much different from the books of classical technical analysis, especially in parts directly related to the "Support & Resistance Theory" and chart formations as well. None of the crossings or divergences, as well as other signals submitted with various indicators, is accepted at all. My own interpretation of these signals is different from classical and standard, and consequently requires a separate and detailed explanation of each of them.

1. Trading based on ascending and descending trend lines.

Ascending or descending trend lines practically always give a perfect opportunity to construct a trade plan based on them. The clearer, more distinct and more obvious a trend line is, the easier the trade should be. I recommend that you pay attention to the

phenomenon, discovered by me, which is for some reason missed in numerous technical analysis handbooks and recommendations:

Any trend line correctly drawn through three or more points will be broken sooner or later. If such a line hasn't been broken yet, it becomes a zone of attraction for the market, which aspires to return to it. The most valid line has the most probability that significant extension in a direction of the break will follow for its actual break.

There is an obvious and rather simple explanation to this fact. The reason is, that significant stops are accumulating gradually behind such a line and the market then begins to hunt (and always successfully) on them.

The probability of a false break is higher if such a line has had only a few contact points for a long period of time, and the market hasn't done significant retracement along the trend yet (**Figure 3.18**).

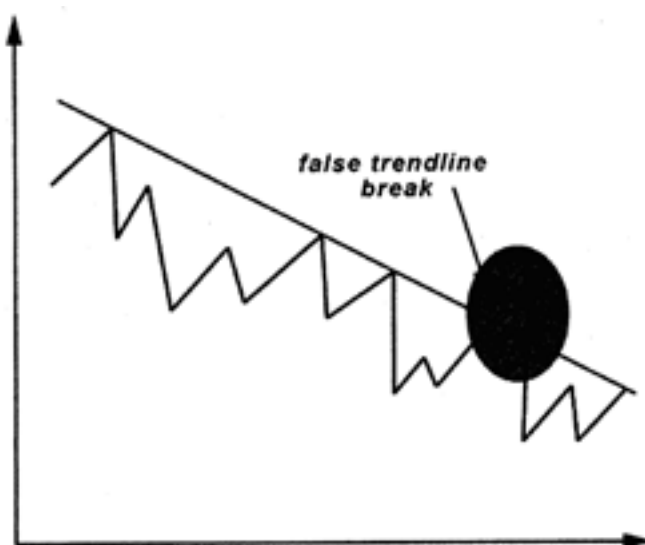


Figure 3.18
A false break of the trend line is usually a confirmation of the ongoing trend continuation.

In other words, a sharp and impulsive high amplitude movement followed by the break of a trend line should serve as a warning that the break may be a false one. On the contrary, the long period of a market consolidation directly before the break more often specifies the high probability that significant "follow-through" or trend change will follow the break.

In any case, even if you don't know whether the trend line will be broken now or later, and if this break will be real or false, the next approach to the trend line gives an opportunity to open a new position. At first you trade "away" from the trend line. As the market comes from underneath the line, open a Sell position. If the market approaches from the top, it gives you a signal to open a Buy position. Stops, as always, are obligatory and they should be established directly behind the line, at a distance not exceeding 10-15 pips from it. Simultaneously, with the stops liquidating your initial position, you may place so-called "entry stops" for opening a new position in an opposite direction. For example, the line is used as a support or resistance (depending on a concrete situation) and as a border. When the market crosses this "border" it automatically gives a signal to change direction of a trader's position (**Figure 3.19**).

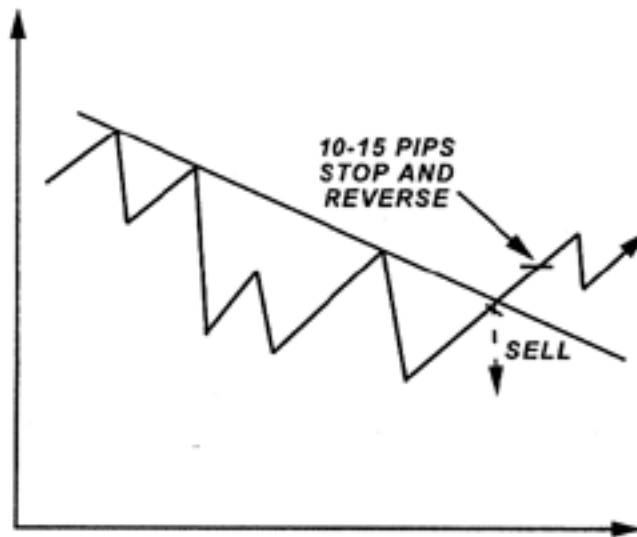


Figure 3.19

A trend line is like a borderline between the market territory and open space. Right ahead of an ascending trend line, a “short” position should be taken. Be cautious, because every line drawn through any three significant points will be broken sooner or later. Each following market’s approach to such a line increases the probability of a break. In case a break took place, stop and reverse your position on a short distance from the break point.

The probability of a false break is higher if such a line has had only a few contact points for a long period of time, and the market hasn’t done significant retracement along the trend yet.

There are three possible subsequent scenarios:

The first scenario (no break of a trend line occurred).

If the break of the trend line does not occur, then according to the first two basic postulates of the philosophical conception, your initial position will be open away from the trend line and will bring some profit in a short period of time. After placing stops, you can relax and enjoy watching a profit growing and accumulating on your position. Take profit later according to trade plan, made in advance within the time frame selected by you (**Figure 3.20**).

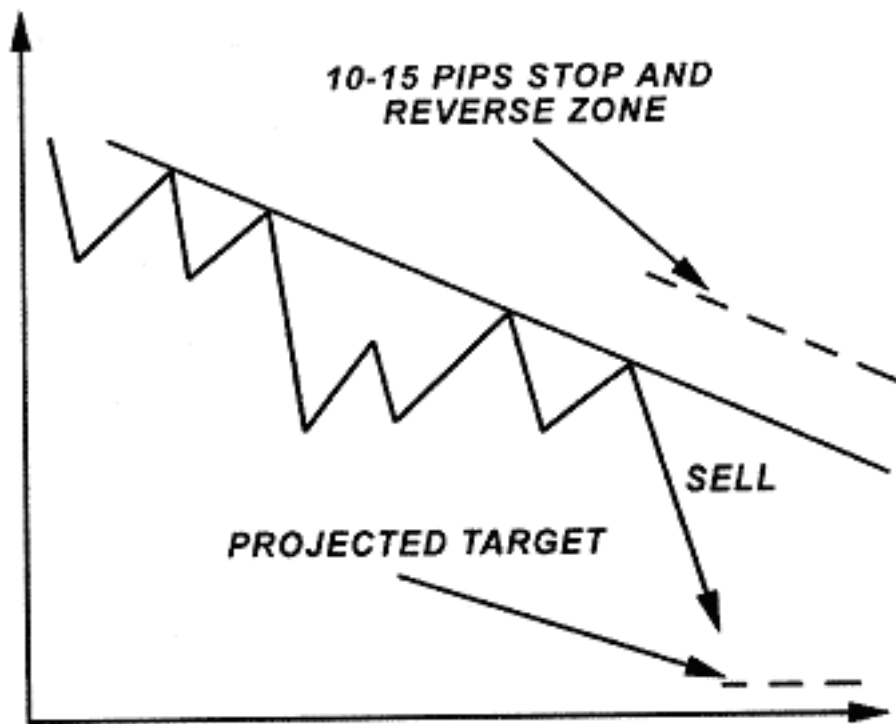


Figure 3.20

This scenario is the most desirable for a trader. A trend line held once again, and a “short” position open ahead of the line should be liquidated and profit realized in accordance with the initial trading plan.

The second scenario (Good move after the trend line is broken).

This one is a bit more difficult than the first one, but it shouldn't bring exceptional problems to a trader. After light stress caused by initial loss, you soon will experience emotional relief. When a trend line is broken, following an active move in the direction of a break, your stops will be activated automatically. After losing 20-30 pips on an initial position, you have already have another open position in the direction of a trend, on which you gradually accumulate profit when the market moves further from the point of a break (**Figure 3.21**). Don't forget to place stops, which should protect your new position. In this case, the risk of losses on a new position will again be equal to the risk, which you had on the initial one. Next, pray the break wasn't the false one.

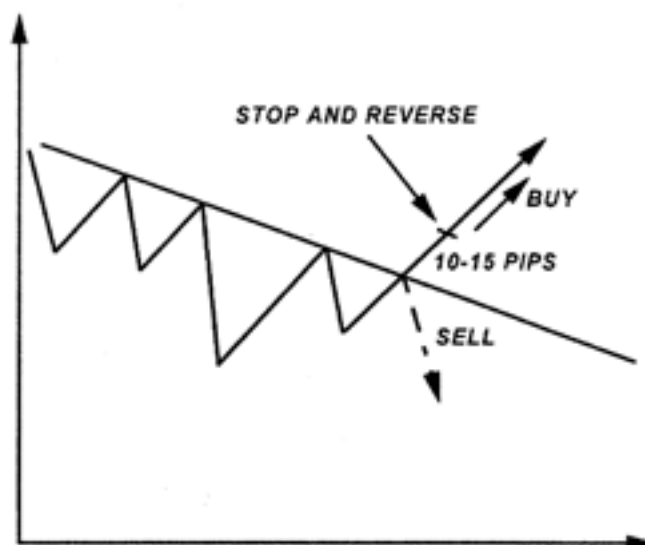


Figure 3.21

In case of a break of the trend line, the initial position should be liquidated and reversed.

The third scenario (The break of a trend line was false)

The third scenario is the most unpleasant one for a trader. Prayers haven't helped and a false break occurred. After the break, which activated stops and entry stops, the market made some insignificant movement, which had nothing to do with real follow-through; and then returned back without giving the trader an opportunity to realize any profit. Thus the market again crossed a trend line, but from the opposite side. Stops were activated again and the trader has lost on two transactions in a row twice reacting on false signals. Even in this case, you can still beat the situations using a money management technique.

The correctly identified and drawn trend line divides trade space into two parts. Usually, the market doesn't allow such an important line inside the established range. The market shouldn't continue crossing the trend line repeatedly in different directions. Here it will be possible to apply the trading technique based on the philosophical conception of my method and the principles of money management. Don't allow the market leave a narrow 20-30-pip zone with the trend line going through the middle of it, unless you have a position open in the direction of the current movement of the market. In that case, each time, stops should be placed at 15-20 pips distance from both sides of a trend line for liquidation of a previous position and opening a new one in an opposite direction (**Figure 3.22**).

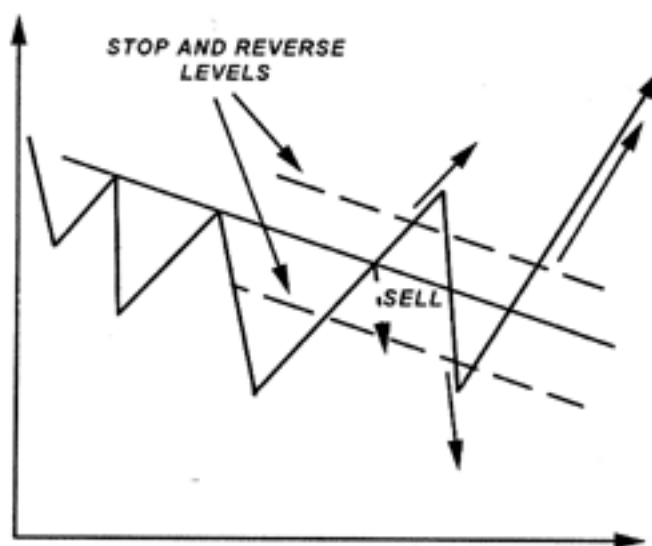


Figure 3.22

**A false break usually leads to two consecutive trading losses.
It could be avoided if you use some intra day trading
technique, allowing evaluation of the probability of a false
break.**

Sooner or later, the market will leave its "congestion zone" at a distance sufficient to cover all losses from trade on a "choppy market". The only problem might be that something considered "sooner" for the market, could become "too late" for a trader. Therefore, it is necessary to limit the number of allowable consecutive losses to three, four or five – making a decision depending on the size of the trading contract, size of your account, margin requirements and strength of your nerves.

There are some other methods of dealing with false breaks, including methods of definition of their probability and also some other approaches using money management. We will talk about these later, in the chapter dedicated to trading templates. In any case, you always have to assume that any break of any trend line can be a false one.

I devoted a separate chapter of the course to different strategies in case of a false break of various trend lines, necklines, technical formations, borders, supports and resistances.

Because in this chapter we talk only about the trend lines angled to the horizon, there is one important detail you have to pay special attention to:

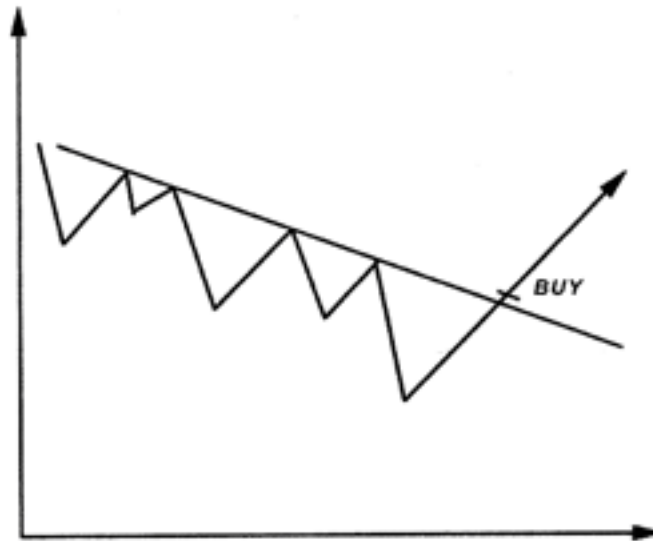


Figure 3.23

If multiple unsuccessful attempts to break a trend line are seen, then a trade plan should be based on entering the market on the break of such a trend line.

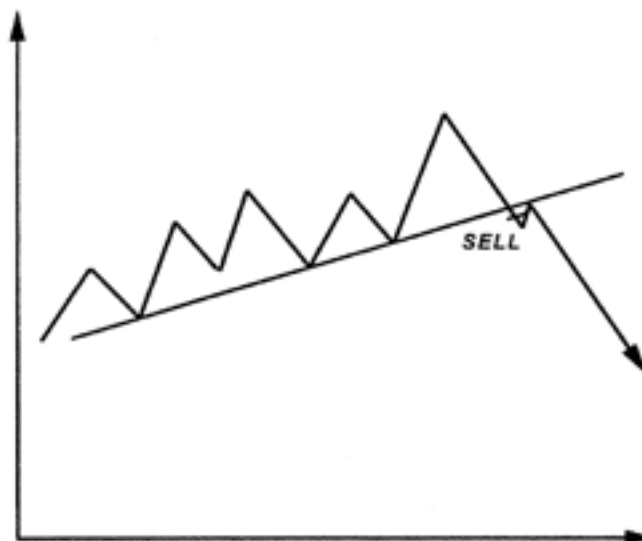


Figure 3.24

2. Trading based on channels.

The formation of the channel on the charts of any time frame indicates for me an opportunity to make of a profitable trade. The channel is one of my favorite technical formations because I can easily define the risk degree, which also can be supervised easily during a trade. The channel gives a clear view on the size of the potential profit. When I receive signals from the channel formation, the Risk/Reward Ratio exceeds the average RRR, which I have when I make transactions on signals received from other sources (**Figure 3.25**).

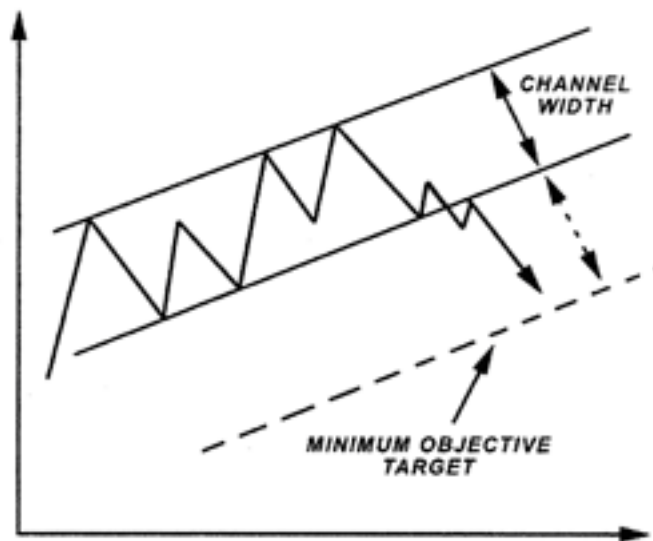


Figure 3.25

A channel is one of my favorite patterns. It always looks obvious on the charts, and provides opportunities to trade in both directions, with measured objective targets and tight stops.

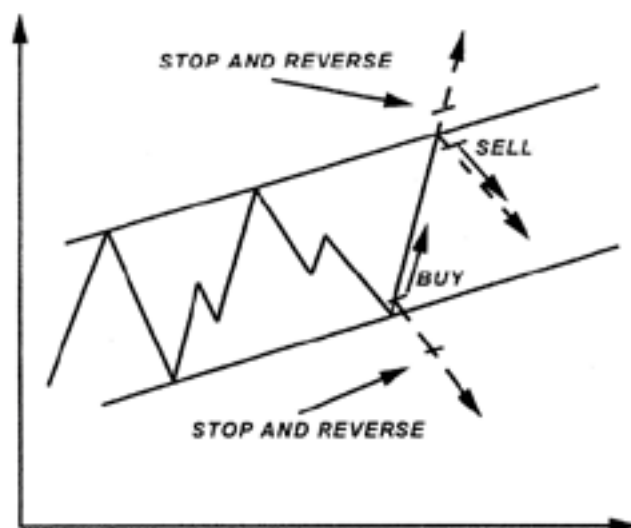


Figure 3.26

There are three types of channels: ascending, descending and horizontal. They are formed more often on short-term intra day charts and are good just for a short-term trade. On daily and weekly charts, channels are present too; but basically as a part of a long-term trend, their borders frequently are a bit dim.

Ascending and descending channels.

Trading on signals submitted by such channels on the charts does not differ much from the recommendations of technical traders, and is similar to the principles of trade on ascending and descending trend lines. A trading cycle usually starts from the lower border of the ascending channel, by opening a long position and by opening a short position from the upper border of the descending channel. Stops need to be placed behind a channel border, and in case of their activation, it opens a position in an opposite direction (stop and reverse).

A target for the channel trading is an area on an opposite side of the channel, where the initial position is liquidated and opens a new one in an opposite direction. Stops need to

be placed outside the nearest border of a channel; but if they are activated, reverse your position only if there are additional confirmations and signals about possible continuation of the market move in the selected direction. The profit will then be realized again on an opposite side of a channel, then the cycle repeats again up to the moment when stops will be activated and turn the position in an opposite direction.

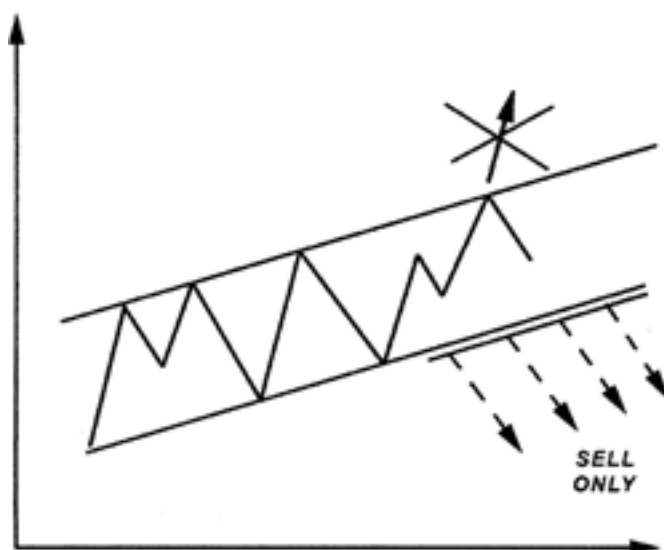


Figure 3.27

I never start my trading by entering market on the break of the upper border of an ascending channel and the lower border of a descending one, if there are not other additional signals received at the moment.

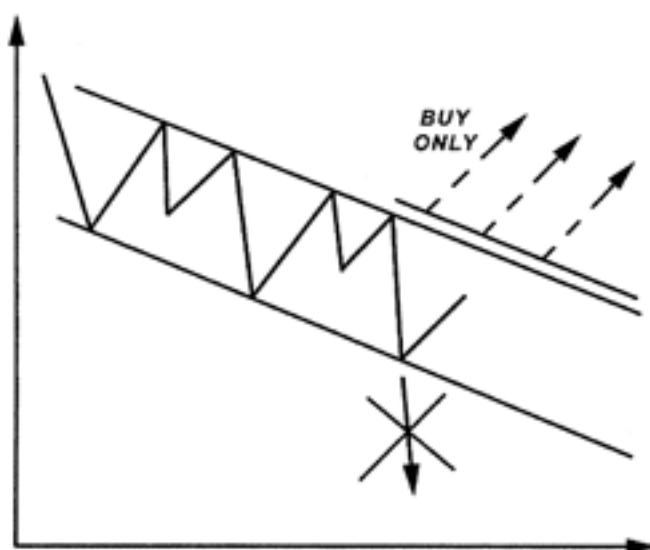


Figure 3.28

Horizontal channel.

Ideal (or almost ideal) horizontal channels are very rare on long-term charts, but at the same time can be seen often on the intra day charts. They are best seen on 5-minutes to 1-hour charts, or even on 4-hours chart. Because such a channel is formed by two horizontal lines, drawing through at least three points each (according to market laws mentioned above) both lines most likely will be broken in the near future.

My experience shows that:

- 1) in the overwhelming majority of cases, the first break of a channel is false;

- 2) after the break, there is a minor move in the same direction, then the market comes back inside a channel;
- 3) after returning into a channel, the market crosses it and penetrates an opposite border;
- 4) after the second break, there is a significant follow-through, which usually exceeds width of the channel.

Some of my templates are based on signals given by a horizontal channel formation. They will be discussed in the part of this course devoted to an intra day trade. The choice of a trade tactic in the formed horizontal channel depends mainly on individual preferences of each trader – rather than the market condition, which basically repeats the same scenario described above, with few variations. Any essential deviations are very rare but possible. Speaking about trader's individual preferences, I had in mind his desire to accept additional risk for an opportunity to gain greater profit. That depends on the degree of his conservatism, time invested in market supervision, individual experience and speed of reaction to a specific situation.

3. Trading based on other technical formations.

I use trade signals given by various technical formations a bit differently from the usual manner accepted in classic technical analysis.

Head and Shoulders.

The probability of the “correct” (textbook) scenario of the H&S formation should not exceed 50%; for this reason, a trader has no statistical advantage, no matter how he acts in similar situation.

H&S is the most recognized reversal technical formation and is very popular among beginners. Many novice traders could see H&S even if there is no even a trace of it on a chart. Seeing H&S where it does not exist occurs not only at the expense of someone's bright imagination but also from insufficient knowledge of the basics of technical analysis. The alteration of waves in the market occurs constantly, and practically any sequence of contradictory movements can be interpreted as H&S – in reality, not actually being one. This mistake often happens when a trader has an open position and is searching for additional confirmations of his point of view. Wishful thinking can play a malicious joke with a trader, and this actually happens rather frequently.

Therefore, before you apply technical signals related for example to H&S, learn to identify this formation first. In all textbooks of technical analysis, there are remarkable pictures showing how this formation should look. Therefore, I recommend that all my students refresh in their memories the shape of H&S, and not to digress from the standard description of the formation. When you have any doubts concerning unequivocal identification of a formation at the practical trade, it is better not to consider the formation as such. The formation can pretend to be real, if at least 9 or 10 traders are able to identify it (**Figure 3.29**).

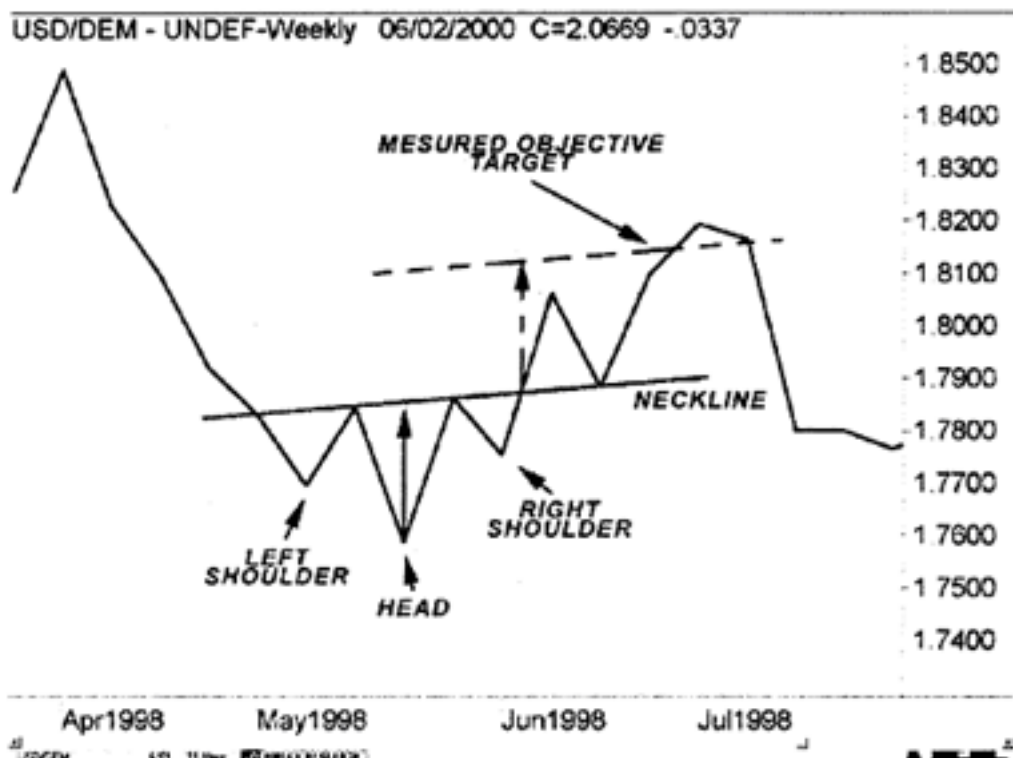


Figure 3.29

To illustrate different thoughts and ideas, I'm using the same picture of the inverted H&S formation over and over again – because this one has a perfect “textbook-like” look that is unusual in the real market. This time, I want to confirm the idea that ten traders out of ten would recognize it.

However, all obvious formations have the basic defect it's so obvious that the overwhelming majority of traders can also see it. Since you cannot expect to take a lot of money from the minority of the market participants (in this case, those who are not capable of identifying the formation for some reason), then complications are most likely to arise. This is the paradox, which requires a solution.

On the one hand, technical analysis recommends that a trader open a new position in the direction of the market's movement at the break of a neckline. On the other hand, under market laws, the crowd that thinks alike always should lose. The conclusion is: the probability of the “correct” (textbook) scenario of the H&S formation should not exceed 50%; for this reason, a trader has no statistical advantage, no matter how he acts in a similar situation.

The exit from an inconvenient situation is rather simple. First, as the neckline being a critical line, it is possible to apply a money management system such as is described above in an example with trend lines, and use stops with reverse to achieve a desirable result. Then, you have to wait until the market leaves a critical zone doing in one or the other direction. Secondly (and I frequently apply this method), you can play on advance of the situation and open a new position before such a formation is fully developed. In the case of H&S, I prefer to take a new position at the point where I expect to see a potential top of the second shoulder. The point of a potential second shoulder is defined by drawing a line parallel to the neckline through the top of the first shoulder, which is already formed.

In case of inverted H&S, such an entry point will become a possible low of the second shoulder. Stops have to be placed according to intra day supports and resistances, but can also be placed on some fixed distance from the opening position determined

according to scale and size of this particular formation. Such an approach requires some practical experience but it's easy to learn. All you need to do in such case is just to pay necessary attention to the situation and keep it under control at all times.

Double top (bottom).

Concerning this formation, my recommendations on a trade will be the same as in the case with the H&S formation, but only in that part related to entry in the market on the break of a neckline. Don't take a position without completion of the second top (bottom), since it is not always possible to define precisely a point of an entry into the market. Sometimes this formation deviates from a horizontal axis of coordinates and inclines on the side. My view is not different from the recommendations of classic technical analysis, and, protecting you from a false break, it would be better to place relatively tight stops and reverse the position if stops are triggered.

Triangles and triangle-like formations.

Early identification of the triangle allows making 1-2 trades inside this formation by opening positions from the bottom/top side in the direction of an opposite side, which will be the target.

In technical analysis, various triangle-like formations including wedge have various names and definitions. According to this, the market's behavior after the formation is completed has different continuation for each specific type. Because the false signals and fraudulent movements are frequent, it's hard to predict where the market will go after a break of a border of the formation. Anyway, a triangle or any other similar formation almost any time allows one to make a profitable transaction without dependence upon any other reasons and circumstances. While trading triangles, I don't bother to think if this is a continuation or a reversal type. My approach to triangles is rather simple and consists of the following:

First, very frequently there is an opportunity of early identification of a triangle after two high and two lows were formed, through which it is possible to draw lines which supposedly will become borders of a triangle. Early identification of the triangle allows making 1-2 trades inside this formation by opening positions from the bottom/top side in the direction of an opposite side, which will be the target. As the market reaches one side, liquidate the position, take profit and open a position in the opposite direction, already having the opposite side of the formation as a target. In both cases, stops should be placed outside the formation, and on both sides if the triangle is a narrow one **(Figure 3.30)**.

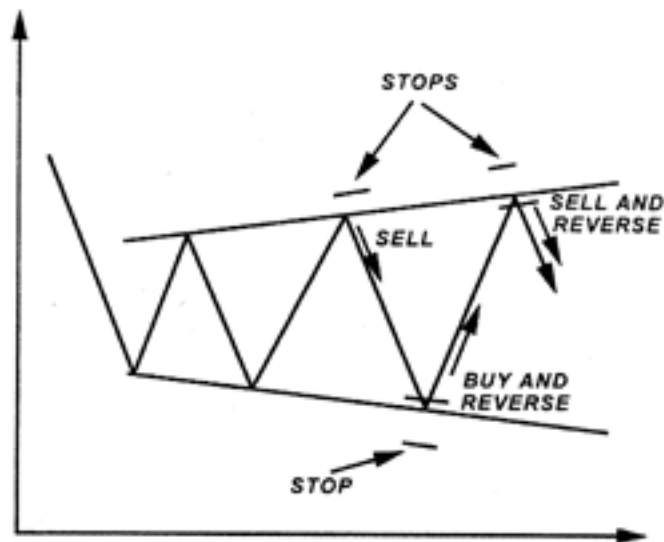


Figure 3.30

The broadening triangle is the only formation I really hate. It looks good and obvious on the picture, but in reality is very hard to identify before it is built completely. Most of my own irreversible losses can be attributed to this pattern, which is relatively rare – thank God. Only a third approach to one of the borders gives a useful and recognizable signal to enter the market in the direction opposite to the most current trend.

Usually a real break comes after the market has already touched each of the sides three times. (Sometimes it happens even later, on the fourth or fifth touch, but it's not so essential). After making trades inside a triangle from one side and to another, simply wait for fourth (or subsequent) touch of one of the sides and open a position in the direction of a movement after the market breaks out from the formation (**Figure 3.31**). Here again, you can be trapped with an unpleasant and unexpected false break. In case of a false break, the position should be liquidated when the market returns inside a triangle. The profit should be taken at the level projected from the break point and at the distance equal to the triangle height (**Figure 3.32**).

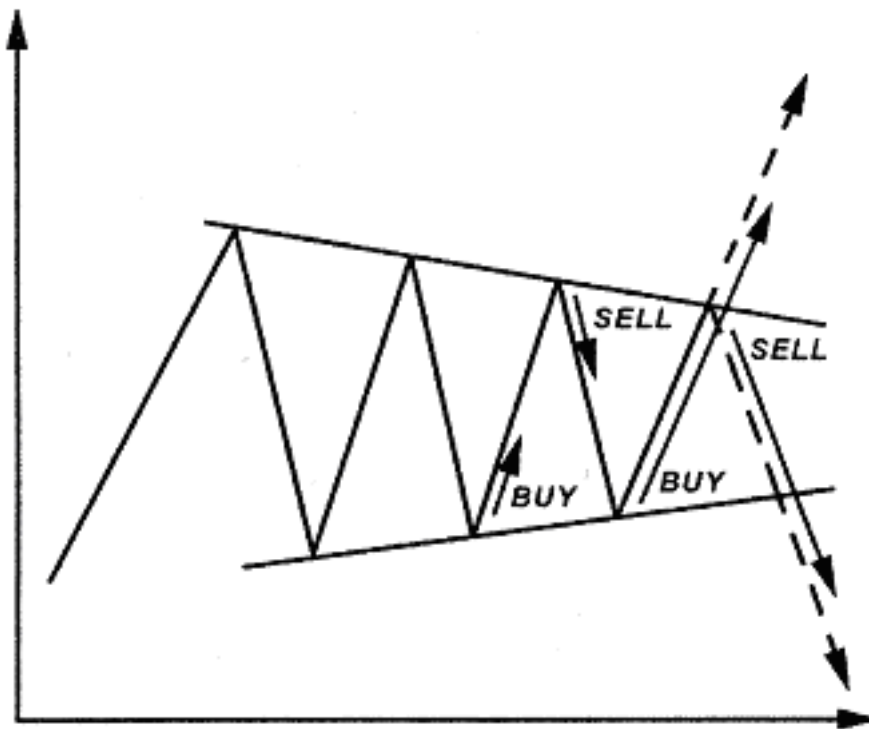


Figure 3.31.

There shouldn't be a problem trading on a triangle-like formation. Everything is obvious, and a trader can start by entering a position towards one of the borders (heading inside) or on the break of any border (heading outside). Choosing a point to place stops is also an easy task.

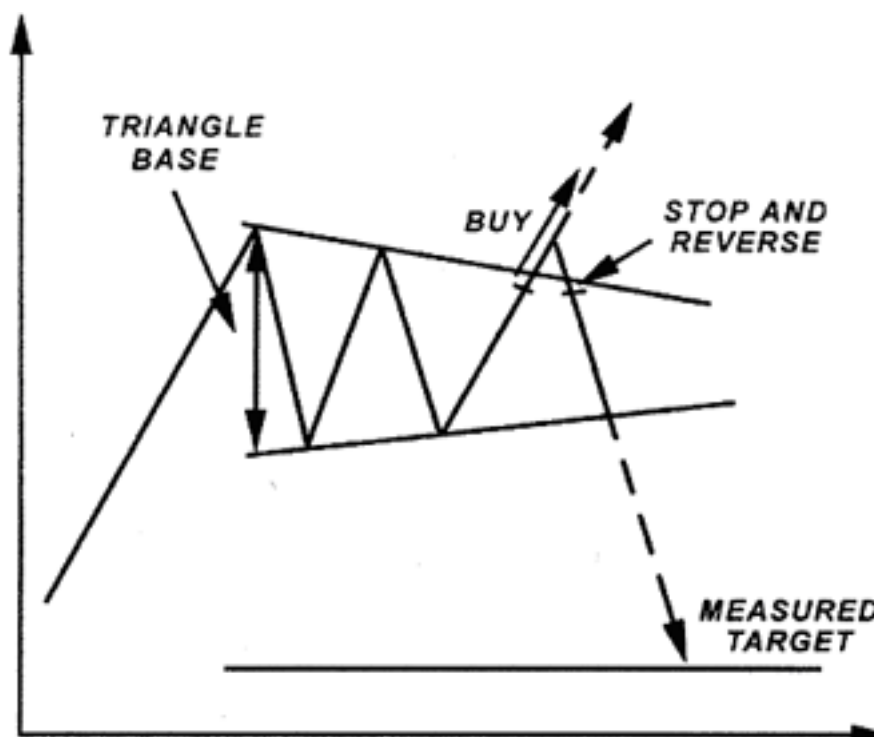


Figure 3.32.

There is also no problem calculating in advance where to take a profit in the case of trading triangles.

The second interesting factor of dealing with triangle-like formations is that, actually, a false break is in many cases even better for a trader than a real one. It arms him with a high degree of probability to forecast the further course of events, since a false break is

nothing else but a perfect confirmation of the market choosing the opposite direction for its next sizable move (**Figure 3.33**).

The false break of a triangle border in the majority of cases is an excellent confirmation of further market intentions. It indicates the future market direction, opposite of the false break. The fact of the false break in one direction allows the assumption that the market again will cross the triangle and most likely will then reach the objective target, which can be calculated easily.

We will discuss the use of a triangle as a base for construction of trade plans, in chapter devoted to templates.

The second interesting factor of dealing with triangle-like formations is that, actually, a false break is in many cases even better for a trader than a real one.

Other formations with precise borders.

Rectangles, flags and some other formations from the theory of technical analysis have the advantage of precisely outlined borders. These borders can and should be used as critical levels, such as supports and resistances. If the width of a particular formation is sufficient, then it's possible to trade inside it, from one border to another. After breaking any one of formation sides, the position should be reversed.

Rounded top (bottom) and V-formation.

In spite of the fact that these two formations look beautiful and obvious in pictures in technical analysis textbooks, I have not found practical application for them in my method. The reason is that the absence of precise borders of such formations doesn't allow you to plan in advance a trading tactic and then use it. It's almost impossible to receive a true signal to enter the market at a certain level and define where to place stops. These formations more often become obvious only when all the events have already taken place and it's already too late to do something about it.

Sometimes more reliable signals to open a position appear, and even acceptable levels for stops form inside such a formation. In other cases it's possible to catch these movements, as happened a few times with me. The trader who reacted to such a signal not connected with a basic formation signal, or by accident happened to be in the right place at the right time, feels deep satisfaction and reliance of his own sagacity. I have no objection to feeling satisfaction, but forget about insight.

Chapter 4

It would be better to follow the initial plan from the very beginning to the very end, unless some dramatic changes call for its review and reconsideration.

Position liquidation and profit taking.

In my trading method, I use several different ways to take profit and to liquidate profitable positions. The choice of one or the other in real market situation depends on the current technical picture, presence or lack of trading signals, timing, market speed, amplitude and sequence of the previous fluctuations, short and medium-term trend direction, etc. It's absolutely impossible to describe each and every combination of different factors, and I think that we can do so later in the process of practical training under real market conditions. Here, I will give you just a few general tips on how and when a profitable position can be squared and profit pocketed.

1. Profit-taking at the moment you receive a signal to open position in the opposite direction.

At first glance, such a way of trading may seem in general like the ideal one. This way seems like it would allow a trader to stay in the market forever by switching his positions from "long" to "short" ones, taking profits and losses, and every time reversing in the opposite direction. However, for a million obvious reasons, such a scenario is almost absolutely impossible, and especially if trading on an intra day basis. Even if you exclude such factors as physical impossibility to control the market for the whole day five days a week, and that more trades usually result in fewer profits, it still wouldn't be reasonable to try to catch every intra day fluctuation. For intra day trading, for example, when a trader has to deal within a limited time frame and market space, a "hit and run" tactic might be considered as the most sufficient and effective. This tactic would not give a trader an opportunity to switch from one position to the opposite one, without risking his floating profit every time he waits for a signal to take profit and open a position in the opposite direction.

The average daily range, even on the most volatile and active currencies, doesn't usually exceed 180-200 pips. Also, a lifetime of an intra day position rarely lasts more than several hours – and sometimes, even minutes. It is also obvious that in order to complete such a daily range and stay within in for a 24-hour period, the market has to fluctuate inside this range, going up and down though the same levels several times in one day. Thus, we can come to a conclusion that since the market most likely gives the opportunity to enter opposite position at the same price level but at different moments of the day, a profit-taking tactic based on trading signals cannot be considered as too effective. Of course, there are some exceptions to the rule. I think that the tactics described above can be used in such cases (as when during the day the market approaches major and long term trend lines, supports and resistances and different formations' borders) – all of which can be identified on longer-term charts starting from Daily. In these cases, a trader also receives an opportunity not just to liquidate his profitable position, but also to open a new one at the same price but in the opposite direction.

2. Profit-taking if the market speeds and activity decreases.

This criterion can also be used as a signal to pocket your profits. Unfortunately, in practice it's not always possible to know exactly if the market activity decrease means that it is getting ready to turn in the opposite direction, or the initial move will continue after some market hesitation and trading sideways. However, there are some signs that may help you to determine further market intentions. First of all, usually the turn doesn't happen at once. It usually takes some time to change the direction of the move to the opposite. Also, the market usually forms a sharp top or bottom (V-formation shape) when reaching a real extreme, even if this extreme is a local one and can be seen on intra day basis. So, if the market has formed a sharp top or bottom and then is trading sideways after some correction it might be a sign to think about pocketing your profits. If there is a flat surface formed on a very top or a very bottom of the range, then the market will most likely continue its move or at least make some extension in the same direction (**Figure 4.3**).

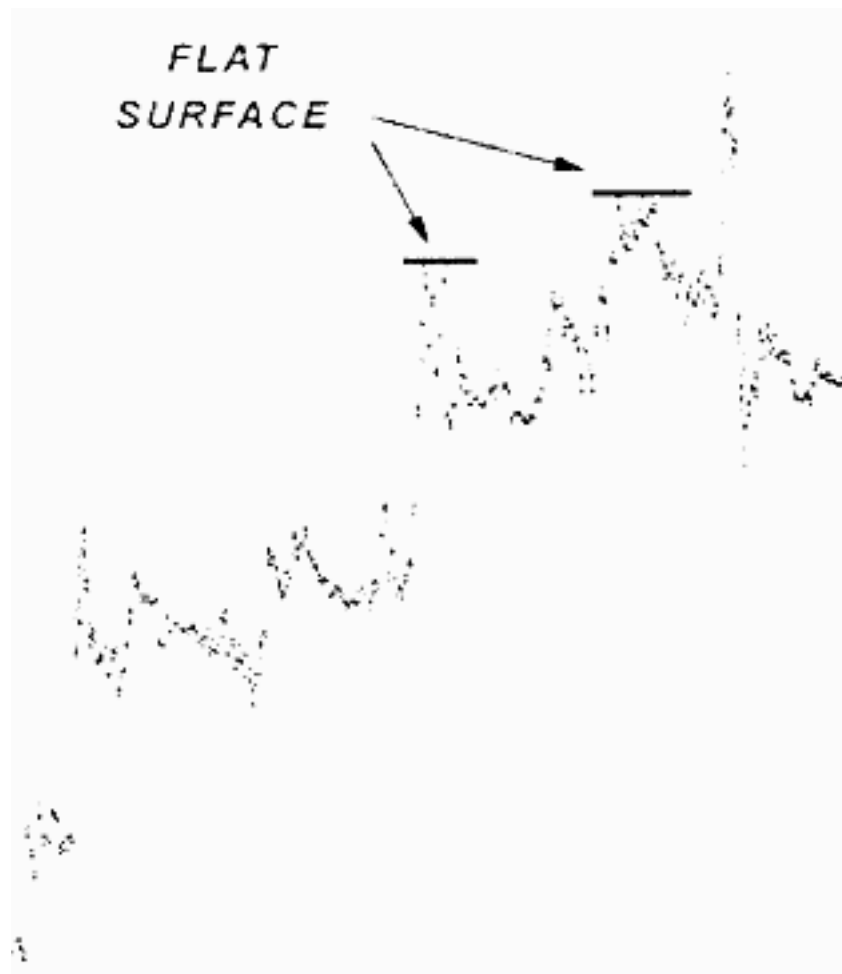


Figure 4.3

To determine for an intra day trade whether the stop of the move is final or not, we should take a look at short-term charts – starting from 5 minutes and up to 15 minutes bar charts. If your position is having a floating profit at the moment and the last extreme has a flat end (top or bottom), then it would be better to wait a bit longer before taking a profit. If the market stops for long and doesn't make a new "High" (or "Low") within the period of time equal to that which it took to commit the move, then the position had better be liquidated and profit fixed. This criterion is very simple to apply to real trading. All you need is to count a number of bars on 5-minute intra day charts. If the number of bars after the market formed its last extreme equals or exceeds the number of bars, which formed the last wave, then it's time to get out (**Figure 4.4**).

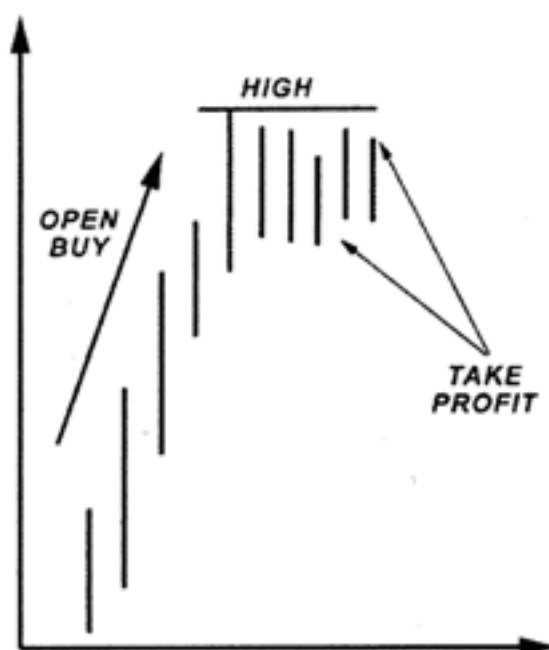


Figure 4.3

3. Profit taking based on timing.

This is one of the most simple and reasonable ways to pocket a profit. As described in the time and trading matters chapter, the market has its own specific cycles of activity. These cycles are changing from time to time, but it's easy to identify a particular one after some watching. Some of those cycles can sometimes be identified on the basis that the market makes extremes at certain periods of time of the day. If such a pattern is seen and proven, then it gives a trader not just an opportunity to liquidate his position at nearly the best price, but also to take another position in the opposite direction.

The other choice related to timing would be pocketing profit at a certain moment – for examples, 30-40 minutes before the end of the European session. The profit taking may start when the correction against the main move of the day will begin, or at the very end of a trading day before the closing of the NY session.

4. Profit taking based on amplitude of a day range.

This one should also work pretty well and (at least statistically) makes a lot of sense. By calculating the average day range for the last couple of months (for example), we can easily make a projection for any current day in terms of its possible range. So, the position might be liquidated and profit taken if the market has already reached its average day limits and fully completed its daily task. Such an approach is usually good when a position was taken after the market has already formed some intra day range and the timing (in regards to cyclical changes) is also taken into consideration.

So, we have a variety of different approaches to profitable position liquidation, but it is also important to remember that the time frame for each trade should be planned (even roughly) in advance. It would be better to follow the initial plan from the very beginning to the very end, unless some dramatic changes call for its review and reconsideration.

Chapter 4

Chapter 4. A choice of a currency pair for a trade.

When making a choice of a currency pair for a trade, no other reasons except the practical ones should be taken into consideration. It always surprises me when I see that some traders choose a currency pair for making a speculative trade, based on patriotic or geographical reasons. I have noticed that many traders from Australia, for example, basically trade an AUD against USD or NZD. New Zealanders, Canadians, Frenchmen and many traders from several other countries frequently prefer to trade their national currencies also. They trade it against the American dollar, or against other national currencies of neighboring countries of the given geographical region. It seems to me, though, that our basic purpose of participation in this business is not to certify our patriotic feelings and pride but only to receive the greatest possible profit. From the point of view of a speculative trader, the patriotically geographical approach to a choice of currency pairs for speculative operations on FOREX cannot be considered rational and justified. The choice of a currency pair for the following speculative transaction should be done according certain parameters, and patriotism and residence are not among them.

The most important and final criterion when making a choice of a currency for short-term speculative trade should be maximum conformity of a current technical picture, and how it fits to a trading technique and/or to a trading system which you're going to use.

The basic criteria for a choice of currency pairs should be their liquidity, activity and average amplitude of fluctuations (trading range). The higher all these parameters, the more preferable such currency pairs are from a speculative trader's point of view. The list of currency pairs most suitable to such a definition first of all includes the following: USD/CHF, USD/JPY, EUR/USD, EUR/JPY, GBP/EUR, GBP/JPY and CHF/JPY. You may be surprised that I have not included in this group Cable (GBP/USD). The reason is that this currency pair has almost ideal liquidity as well as all other "majors", but the average day amplitude of Cable fluctuations is lower than would be desirable. Also, the small cost of a GBP/USD pip is from my point of view better for an intermediate term positional trade, than for short-term intra day speculations. (Sometimes I also trade it, but not very often.)

The most important and final criterion when making a choice of a currency for short-term speculative trade should be maximum conformity of a current technical picture, and how it fits to a trading technique and/or to a trading system which you're going to use. As in this course we talk particularly about my trading technique, just the maximum conformity of the chart to one of the templates used by me becomes a determining factor for a choice of a particular currency for a particular trade. It is especially important if in the given moment the market is in immediate proximity to some key technical level.

I accept diversification and, from my point of view, it's possible and necessary to trade various currency pairs. However, my personal practice shows that having simultaneous positions on various currency pairs disseminates a trader's attention. It's rather difficult to follow all the currency pairs at the same time. Therefore, I simultaneously hold open positions on no more than two or (very seldom) three currency pairs. In some cases (for

example, trading USD/CHF and EUR/USD), I frequently use “substitution”. By substitution I mean analyzing one of them, but (on the basis of this analysis) trading the other one.

The Swiss franc basically doesn't have its own brightly expressed identity in the marketplace. On a large scale, it is not more than a “proxy” in relation to Euro. At the same time, it has high activity, large amplitude of fluctuations and perfect liquidity. These “qualities” allow USD/CHF to be one of the most attractive currency pairs for speculative trade.

Chapter 5

Exiting a position with a simultaneous reverse.

Position liquidation with simultaneous opening of a new one in the opposite direction is a method, which I apply frequently. In most cases, I apply it at the moment of liquidation of an unprofitable position, but there are cases in which the reverse occurs at liquidation of a position with profit. Between these two cases, there is a basic difference, and it makes sense to consider them separately.

1. Simultaneously reverse and liquidate an unprofitable position.

Simultaneously opening a new position in the opposite direction and liquidating a previous one is a quite normal and natural action for me. Why not? If things went wrong (not as I was hoping in the beginning while making my trading plan) and since the market has to go somewhere and there are just two possible directions for that then, I don't hesitate. I had better take a position where the market goes, instead of sitting and doing nothing after the stops were triggered. As I try not to have an opinion regarding future market behavior and its direction. I do not feel any psychological problems in relation to liquidation of one position and opening the opposite one. Really, why should I worry if there is a confirmation that the market is choosing the opposite direction and it is possible to earn money trading either way? By receiving confirmation that the market is not going to follow in a direction originally selected in accordance with my initial plan, it would be quite logical to try to achieve success by reversing a position. In such cases, the new position usually opens automatically at the moment the stops trigger. My only concern is that such an action always has to be part of the initial trading plan. Like the stops placing rules we discussed, opening a new position at reverse also has to be carried out using similar tactics.

However, in order to make a decision to reverse a position, there should be some certain terms and preconditions me to avoid possible problems and complications. There are also some times when the reverse is not recommended, as it can be too risky.

The reverse is best when you place the stop, which will be activated at the same price at which the initial position was liquidated.

The presence of the following factors will favor position reverse, if at the moment of reverse:

- The market breaks a major technical level which can be determined at the analysis of intermediate and long-term charts;
- There is an opportunity to place tight stops, and the risk taken doesn't exceed a safe level in case of possible loss;
- The market is active and its speed is high;
- The intra day range is broadening;
- There is an expressed intermediate term trend in the direction of newly open position.

The reverse of a position can appear inexpedient and risky if:

- Activity of the market and its speed are rather low;

- The reversed position will be open against the main direction of the day;
- The new position will be directed against the intermediate trend;
- There are less than 2 hours before the end of a trading day;
- The market has already formed or exceeded its average daily amplitude;
- The point of reverse is not tied to any significant technical level;
- The nearest technical level suitable for placing stops is too far from it and is outside an acceptable range.

These common reasons are not rigid rules, and the decision should be made with regard to the current situation. Some preliminary analysis and consideration of several possible variations should also be done. In any case, the decision to reverse a position should be made in advance and be part of the whole trading plan from the time the initial position was opened. The reverse is best when you place the stop, which will be activated at the same price at which the initial position was liquidated.

Mistakes or lack of professionalism should not be corrected at the expense of such purely mechanical actions as a contract size increase at the moment of position reversal, since the risk also increases accordingly.

2. Contract size increase (doubling) for a reversed position.

I apply this method rarely, though it is known that many traders use it widely. It seems to me that, in many cases, there is no practical expediency in such an action. Rather, the incentive is elementary greed, the desire to recoup and to cover losses as soon as possible. More so, it is related to psychology rather than to a trader's everyday routine (only in case when such a practice is not part of a mechanical trading system used by a trader). I think that mistakes or lack of professionalism should not be corrected at the expense of such purely mechanical actions as a contract size increase at the moment of position reversal, since the risk also increases accordingly.

In case of several consecutive losses during the same trading succession (if, for examples, a "choppy market" situation took place), it could result in severe damage to the trading account. Therefore, I apply a double contract size at a position reverse only when there is an opportunity to place a very tight stop. More often, I liquidate the surplus in the contract size as soon as the profit covers the initial loss. Besides, I prefer to double a contract size after two consecutive losses only. If a third one happens this time, I stop trading until the next day, when new trading opportunities and signals will be generated.

A new position then opens simultaneously by the same order. Externally, it looks like an ordinary limit order but twice the size of the initial contract. In both variations, stops on a new position should be placed beforehand, too.

3. Reverse at the moment of liquidation of the previous profitable position.

I use this scheme rarely, but more often than I apply the technique of doubling the contract size. I use it seldom not because I do not like such an approach, but because such a method requires great accuracy, attention and certain conditions, which will need

to develop in the market. Unfortunately, in practice, the conditions for this kind of trade are rare, especially for intra day trading.

The reverse with simultaneous liquidation of a profitable position is possible in two cases:

- a) The market reaches a strong technical level, which it is unlikely to pass;
- b) The market gives a signal for opening a position in the opposite direction.

In both cases, a trade execution can be made directly by a trader through a market order, whether he looks after the market at this moment or it is done automatically. The automatic order occurs when an old position is liquidated through a limit order at the level calculated in advance, i.e., directly ahead of strong technical support or resistance. A new position then opens simultaneously by the same order. Externally, it looks like an ordinary limit order but twice the size of the initial contract. In both variations, stops on a new position should be placed beforehand, too.

In the second case for liquidation of one position and the opening of another position, a trailing stop can also be used along with the doubling size of the usual contract. After an order execution, a new position should be protected immediately by automatic stops.

Chapter 5

Chapter 5. Money management basic rules and technique.

Money management's purpose is to control the risk and distribution of investment capital so that one loss or even a series of consecutive losses should not result in the inability of further continuation of a trade, and would not destroy a trading account by bringing it to an unmanageable condition. In a more comprehensive sense, money management also means a technique of preservation of current profit on an open position and a technique of its fixing.

Plenty of literature is devoted to money management, in which authors with a large amount of practical experience in trading mainly share their thoughts and recommendations concerning the best approach to manage capital.

Their recommendations in general deserve attention but, unfortunately, numerous publications on this subject agree only on one thing: money management is absolutely necessary for a trader, since it would be impossible to expect any success without it. However, when it comes to practical advice and recommendation, we can see a large variety of opinions sometimes directly contradicting one another. Therefore, it is difficult to understand these contradictions when reading the works of different authors.

It is almost impossible to choose only one correct approach, which would correspond to a trader's individual situation, his trade system, the current market condition and a concrete currency pair. Most important of all, however, is that practically all recommendations concerning money management basically are directed to a long-term positional trade and not much that would fit to an intra day short-term trade. Therefore, my recommendations will now to a large degree have a common character, and practical suggestions on money management will be included in each of the trading templates intended for an intra day trade.

Because all components of a trade strategy and tactics are connected, please allow for some possible recurrences of information you already know from the previous chapters of this course.

Basic principles of my approach to questions of money management:

1. The majority of a trader's mistakes can be corrected, and losses can be compensated, if you have correctly chosen money management tactics and strategy.

This principle directly follows from the first two postulates of the philosophical conception of my method – that the market has only two possible directions of movement and it moves all the time. In reality, if the market moves against an open position, the immediate compensation of losses is possible most of the time if you liquidate an unprofitable position and open a new one in an opposite direction. Doing this at the right place at the right time will provide you some additional comfort and should allow you to cover your losses relatively soon. If you place stops, you will be able to get fast compensation of prime loss, if the loss isn't large enough to keep you from further participation in the market.

This technique works especially well on an intra day trade, according to the third postulate of the philosophical conception of my method. Because the average daily range on a particular currency pair is usually well known in advance, it shouldn't be too difficult to calculate whether the market still has potential to cover the initial loss completely or partially. This approach can easily be used in practice. The details of such a technique will be described in the template section of the course.

(During an intermediate or long-term trade, the third postulate plays only an auxiliary role and the reverse technique is a bit different.)

2. The trader's plans to restrict the loss for a single trade must not be constructed on the basis of a fixed percentage or sum from the total size of a trading account.

Only the market itself can offer a trader the time and place at which an unprofitable position should be liquidated. The trader's only right is to agree or to deny this market's offer. Therefore, stops should be tied to the market's technical levels instead of to a certain amount, which the trader considers safe to lose in one trade. The market level, where the position will be liquidated and loss will be accepted, should be planned in advance and be a part of the initial trading plan. A trader always has to have a certain limit of loss affordable in any given situation, and the amount must also be calculated in advance. If the nearest technical level suitable for placing stops is outside the limit of acceptable loss, then you should postpone your trade or cancel it altogether. Then, wait until the market comes close enough to such levels, or forms a new one allowing you to place stops on your position within the limits of an acceptable loss.

3. A trader should always have sufficient capital in reserve in case a single loss or series of several consecutive losses takes place. Therefore, you should establish your own restrictions on the margin and volume of the contracts you trade, irrelevant to what your dealer or broker has in their policy.

These restrictions have a direct relation to an "overtrade" situation. A trade with the margin of 10-20% seems an optimum to me. For example, on each \$10-20,000 of capital on the trading account, you can have just one open contract at a rate of no more than \$100,000. The risk of excessive losses within a short period of time will be considerably limited if trading on such conditions. At the same time, sufficient use of capital will still allow you to make a profit, sufficient compared to the total account size. This is so even for an intra day trade.

4. "Averaging" is one of the most dangerous trading techniques for use in real trading. This method is the most difficult to control from the money management point of view, and can be recommended only in exclusive cases. I don't recommend it for beginners with small trading capital at all. "Averaging" is a main enemy of money management and the main reason for complete loss of a trading account for the majority of traders who have already vanished from this business.

Averaging is the trading technique of adding a new position to already existing ones, which have some floating loss on them. All the positions are on the same currency pair and are open in the same direction. I have already mentioned this method in one of the previous chapters, and now it's necessary to discuss it looking from a different angle. Basically, averaging means that all the positions are open against the prevalent market movement. In many cases, this also means that even having proof of his own mistake, a trader still continues to insist on his wrong opinion.

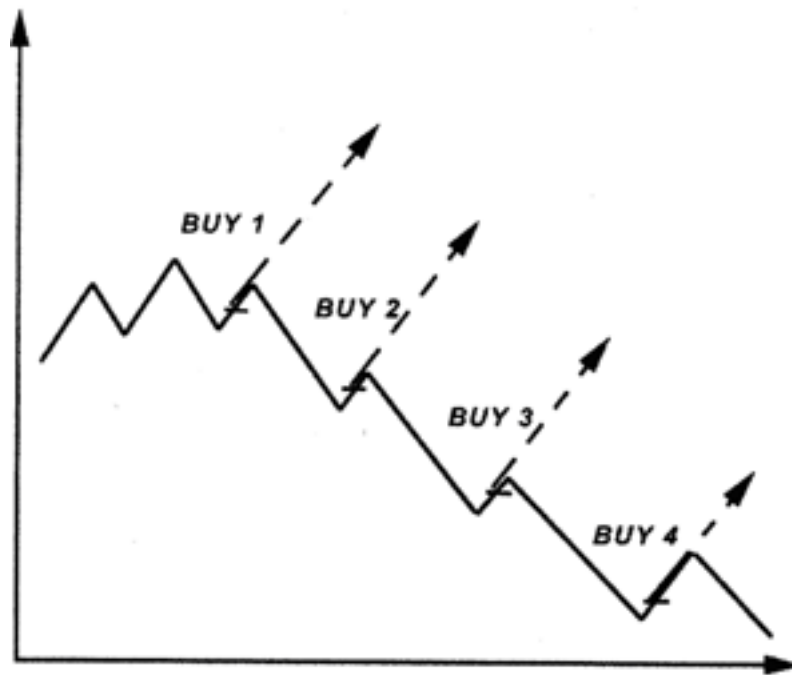


Figure 3.34
Everyone knows what averaging means. This simple illustration is just a remainder of how insisting on an wrong opinion can ruin someone's account and future trading career.

The main problem of this method is that, in the overwhelming majority of cases, “averaging” is not part of trader’s initial plan, strategy or tactics consciously chosen and designed by him. It is rather a compelled step taken because events on the market have begun to develop a situation not stipulated by a trader. Things just went wrong.

The individual speculator who found himself in such position against his will usually was led to it by one or more of the following reasons:

- a) greed;
- b) lack of sufficient trading experience;
- c) unwillingness or inability to recognize his own mistakes;
- d) naïve belief that the market always comes back;
- e) reliance on his forecast;
- f) belief in his own infallibility;
- g) hope that a bit later, the market will let him liquidate positions at “break even” point; and so on.

The largest losses among individual traders-investors and among managers of large investment funds are most often connected only with an application such as “averaging”. Certainly, the institutional investors have other reasons for having devastating losses – different from those common for individual speculators. These are usually mistakes related to the definition of a force of a long-term trend and, as a consequence, an incorrect money management strategy. There are lots of examples of such losses – Barrings Bank, Long Term Capital Management Fund, Tiger Fund and Quantum Fund, just to name a few victims.

As you can see, even very large capital does not guarantee against losses due to mistakes in money management, especially use of such tactics as averaging.

Later, I shall explain the basic principles of positional trade strategy construction using this technique.

5. Risk/Reward Ratio (Profit/Loss Ratio) should not necessarily be taken into consideration every time you open a new position.

It is widely accepted among traders that the ratio between potential profit and probable loss always should be more than 1. This issue may also be related to money management. If you accept this ratio from a mathematical point of view, it gives you an equal number of profitable and profitable trades (without mentioning possible additional losses from the commissions, slippage and other operational costs). In other words, it means that each position should satisfy the following condition:

Risk/Reward < 1 or Profit/Loss > 1 : they are basically the same.

This type of ratio can be compared to a coin toss in which each time you win, your opponent pays you more than you pay him when you lose. It is clear that even at the ratio of 50/50 (heads and tail), you guarantee yourself profit on the total of all attempts. Referrals to a RRR in all books, brochures and training recommendation are always nearly identical, i.e. the necessity of a positive ratio for the benefit of reward does not cause doubt for anybody. Moreover, for many traders, the number of unprofitable trades is larger than the number of profitable ones. Success in such cases may be achieved only if the average profit for each profitable transaction exceeds the average loss for each unprofitable trade.

To tell you the truth, such mathematical absolute truths give me strong doubts and suspicions in their excessive simplicity of conclusions. It seems these absolutes don't have any other interpretation because they are not only based on mathematics, but also are easily accepted as true even from the position of common sense. However, the first opinion seems to me to be the wrong one.

When I developed this course, I made a vow to make it as simple and clear as possible to be understood by a person of any level of knowledge and degree of preparation in an area not connected with trading. Therefore, my basic purpose is to give an opportunity to my students to acquire and to develop practical trading skills just being guided by ordinary common sense, without stuffing their heads with excessive formulas and theoretical calculations. In this case, I also try to avoid an excessively academic approach, as well as to simplify my point of view.

It seems to me that the supporters of the obligatory condition Risk/Reward < 1 in real trading make some basic mistakes:

First, they consider each trade as an independent event, assuming that the probability of the profit or loss reception in each concrete case is 50/50. If we agree with this, then the decision to open a position each time really could be based on simply flipping a coin. Moreover, the elementary mechanical system should work in this case:

- 1). Flipping a coin at the beginning of a day (or at any other time), you decide to open a position.
- 2). On a certain fixed distance from the opening price, place a stop, which has to limit your possible losses.
- 3). On the opposite side, on a fixed distance, place profitable liquidation stops on such a condition that this distance is more than the distance from the opening price to a stop loss placement.

A very simple and effective system will guarantee profit if assumes that the probability of the market movement in one direction or the other is identical at any given moment. It is clear that, in reality, nobody trades like this – including RRR supporters as well.

Second, you should look at a trade not as set of unconnected and independent events, but as a process, which has its own duration of time and consists of several consecutive steps of the prepared plan of a trade in accordance with the system of probability estimation. It is clear that, in that case, the probability of fulfillment of a profitable transaction is greater each time than the probability of a loss, and constantly changes with the flow of time. If you insert in the trade one more variable component (for example, change a contract size in the same series of trades inside a trading plan), the observance of RRR principles becomes senseless.

If we digress from a theoretical discussion and look at real trading, we shall see that in many cases it's not easy to define the point of liquidation of a profitable position, i.e. to have a target on every single trade. The absence of a target makes calculation of RRR impossible.

Chapter 6

The right choice of timing for a position opening and liquidation is a very complicated task and demands a lot of attention, patience and (unfortunately) rather significant experience from a trader.

Time and trading matters. Importance of timing.

The market has three basic characteristics, which a trader must take into consideration: level, direction and timing. Trading is the art of being in the right place at the right time, i.e. on the right side of the market. We have already well discussed how to determine the right place for entering the market and to make it in a right direction. Now, It's time to talk about the timing factor. As the market events develop (not only in space, but also in time), it is necessary to take into account the entire picture at any moment a position is opened or liquidated. Timing is an extremely important factor in trading, and a sense of timing is an essential component of a trader's success in the art of the market. The right choice of timing for a position opening and liquidation is a very complicated task and demands a lot of attention, patience and (unfortunately) rather significant experience from a trader.

Thus, positions opened in the direction of current market movement at the moment when the market forms new "High" or "Low" of the day will give a trader some certain statistical advantage. This is especially true when the market simply doesn't have enough time to complete its average daily range within the period of time left before the end of a trading day.

Normally, it wouldn't be very difficult for an experienced technical trader to determine future market trading levels more or less precisely, but the forecast of the time frame of such an event is rather difficult or impossible. Mistakes in precise forecasting are so great that they often compel a trader either to liquidate a potentially very prospective position prematurely, or to keep a profitable position longer than necessary. An unprofitable position carried with a floating loss is often liquidated at the moment it has accumulated the greatest possible loss, and right before a turn for the better.

However, the connection between amplitude of the market fluctuations and its direction also exists, and the knowledge of some common law related to timing could essentially help a trader in his choice of the right place at the right time. Besides, as the market is open 24 hours a day, it is quite natural that a trader is not capable of supervising it constantly. Hence, it is necessary to organize his working hours so that presence in the market would coincide with periods of the best activity and would bring a maximum possible effect. For these purposes, it is important to have an idea of how time and market space are tied together.

The market has to complete its average trading range daily. So, the distance between "high" and "low" of each next day can be projected in advance with certain accuracy.

This statement is one of the basic three postulates of the philosophical basis of my trading method. It is time to talk about it in more detail, since this fact has a direct relation to intra day speculative trade, and some of my trading templates are constructed on its basis.

Really, this feature of the market rather rigidly connects “space” and “time”. If you take into the account the inertia of the market, such an approach will allow you to more effectively determine the levels of opening and liquidating your positions, and to make these transactions at the right time.

Thus, the positions opened in the direction of the current market movement at the moment when the market forms new “High” or “Low” of the day will give a trader some certain statistical advantage. This is especially true when the market simply doesn’t have enough time to complete its average daily range within the period of time left before the end of a trading day.

To execute the order to open a new position, I typically use “entry stops” so as not to waste time on transaction execution while trying to place my order at a market price. Generally, such a tactic works very well as, at the expense of stops accumulation, the market frequently accelerates at the moment of establishing a new daily “High” or “Low”.

This trading tactic is very effective when:

- **Trading is made at a period of the best activity of the market;**
- **The currency chosen for trade has the largest average daily range;**
- **The position opens in a direction of the current intermediate trend;**
- **The establishment of new “High” or “Low” coincides with a break of an important technical level;**
- **There is not enough time left until the end of the trading day, and the average minimum range typical for the given currency hasn’t yet been formed.**

The last item is especially interesting to a trader, since it gives him a statistically advantageous position. The described situation hardly increases chances for taking profit, and at the same time allows you to calculate a point of the position liquidation. The position may be closed at the moment when the market achieves the average range in which it can liquidate your position, or be saved until the end of the day and be liquidated directly before closing of the market. In the second case, the intra day profit is frequently more significant, since the market often exceeds the minimum of its daytime range.

Cyclic changes in market activity periods.

Formed range. I witnessed many similar cycles when, almost every day, not only USD/JPY but also USD/CHF, USD/DEM and Cable formed their daily trading range.

Long-term supervision over the market has allowed me to determine some other laws having a direct relation to timing. These laws are considerably more important for a short-term trade than for a positional one. Only the intra day trade is most subject to influence of timing, and requires application of various trading tactics, depending on the moment of opening or liquidating a position.

From the start, I would like you to pay attention to the periodically varying character of market behavior. Activity of the market and an intra day trading range are not coordinated. Changes in market activity occur cyclically. They are characterized by displacement of periods of the increased and decreased activity on a 24-hour scale of a trading day during many consecutive days. For example, there were cycles in which all the daily trading range was completed in a period of one working session. For example, the daily range completion during the limited time is characterized by forming the top and bottom of the whole day during one of three basic sessions: Asian, European or

New York. It means that the “High” and “Low” of the trading day were formed in no more than 8 hours, and, for the rest of the trading day, the market was moving inside the already settled range during the Asian session.

Sometimes, similar cycles are highly visible, and sometimes they are less obvious. Their variety is huge. From that great number of various cycles, which I had to observe trading the basic currencies, the following were the most memorable:

- The market formed its daily range during the same session; **(Figures 4.5-4.7)**
- Directly before the New Your session (10-20 minutes prior to its beginning), the market formed the top or bottom of the daily range. For example, within the time left until the end of the day, the market traded inside the already formed range; **(Figure 4.8)**
- The daily range activity was divided between sessions, and, during each session, the market expanded the previous range by 1/3 of the size of the daily range in one direction or other; **(Figure 4.9)**
- The market completely formed its daily range by the end of the European trading session, and traded inside the already formed range for the rest of the day; **(Figure 4.10)**
- Within 3 hours before the end of the European session, the market almost doubled its trading range; **(Figure 4.11)**
- The market completely formed its daily range within 3-4 hours, and then traded only inside the already formed range; **(Figure 4.12)**
- The market increased its daily range significantly (40-60%) in an unusual time of the trading day, i.e. in a period between 3-5 p.m. NY time (8-10 p.m. GMT). **(Figure 4.13)**

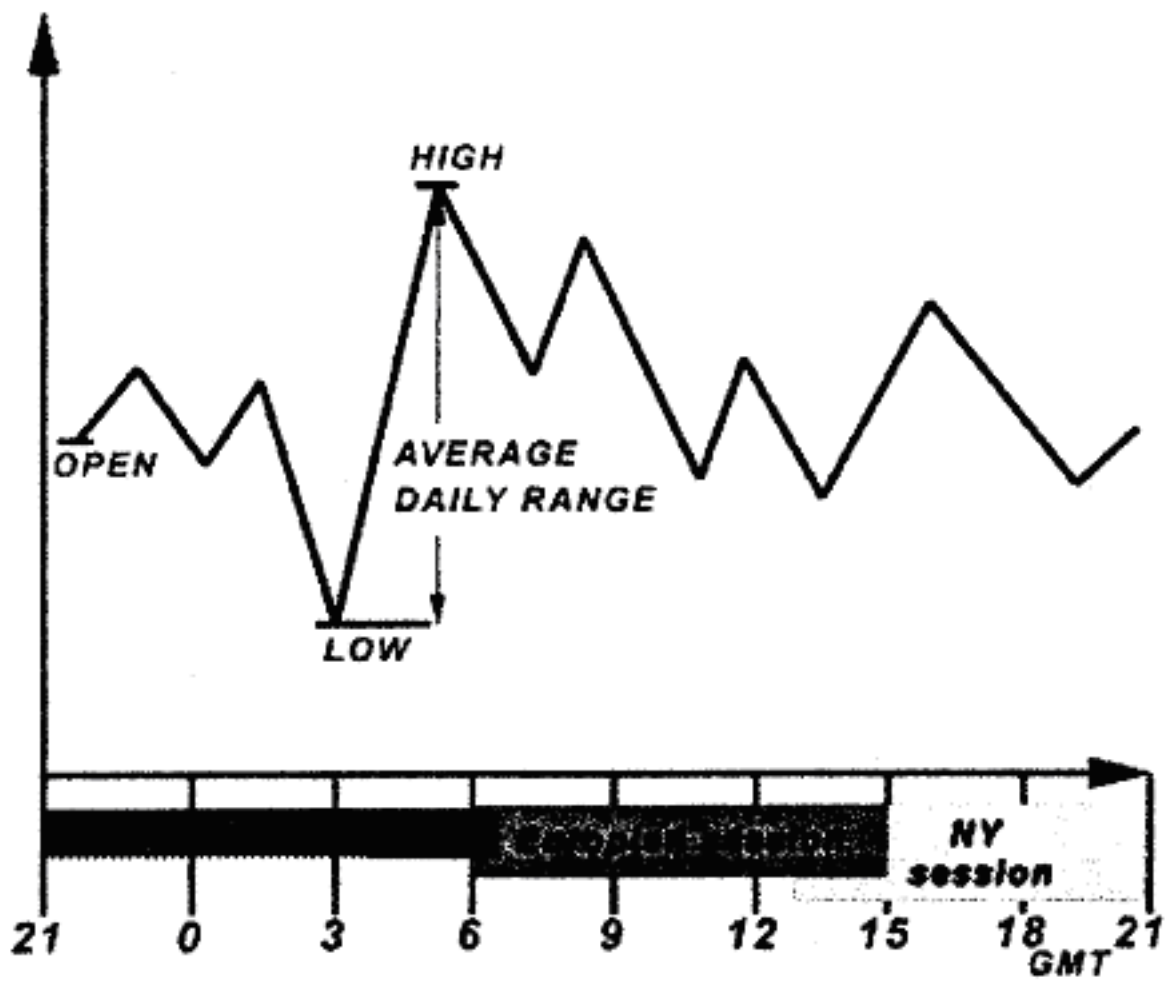


Figure 4.5

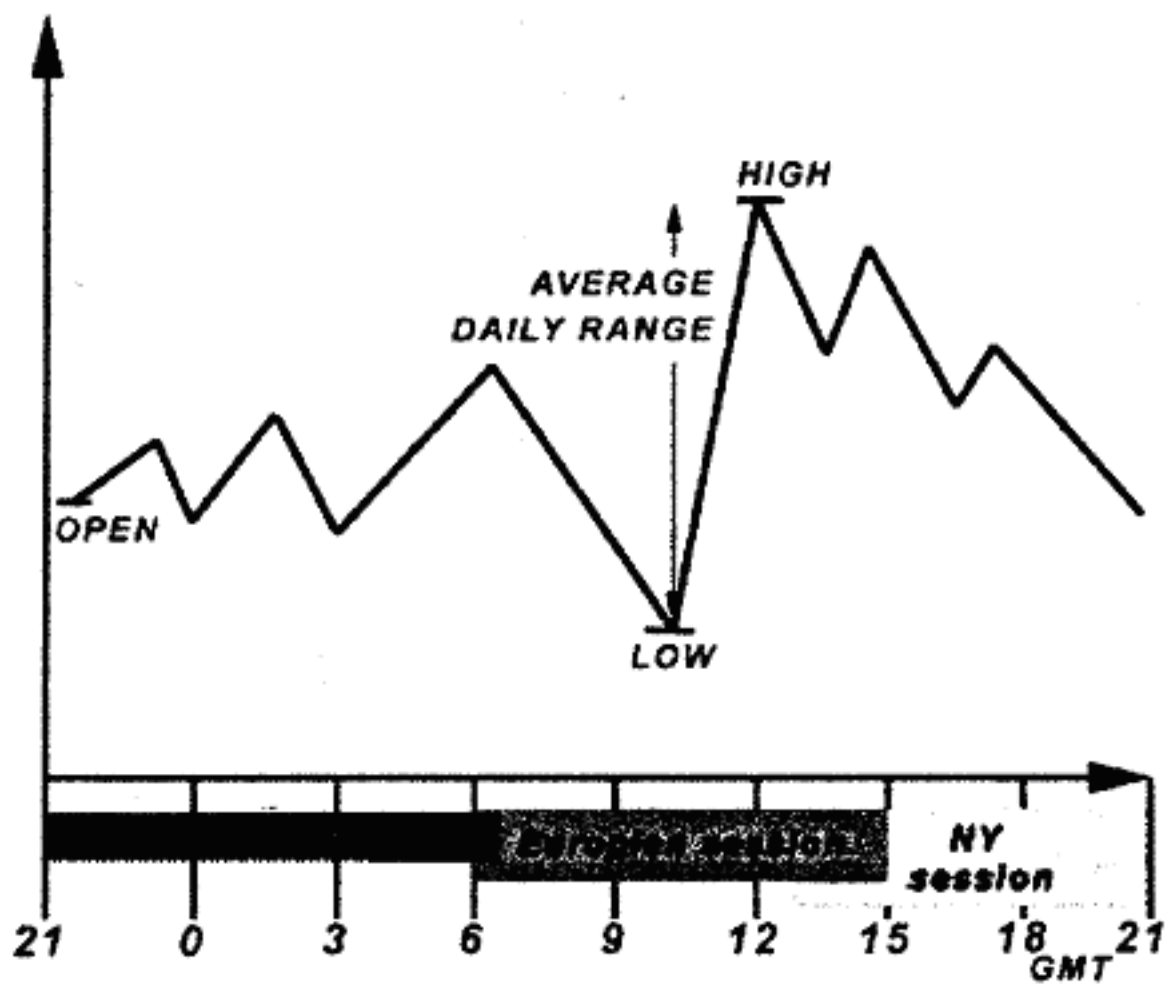


Figure 4.6

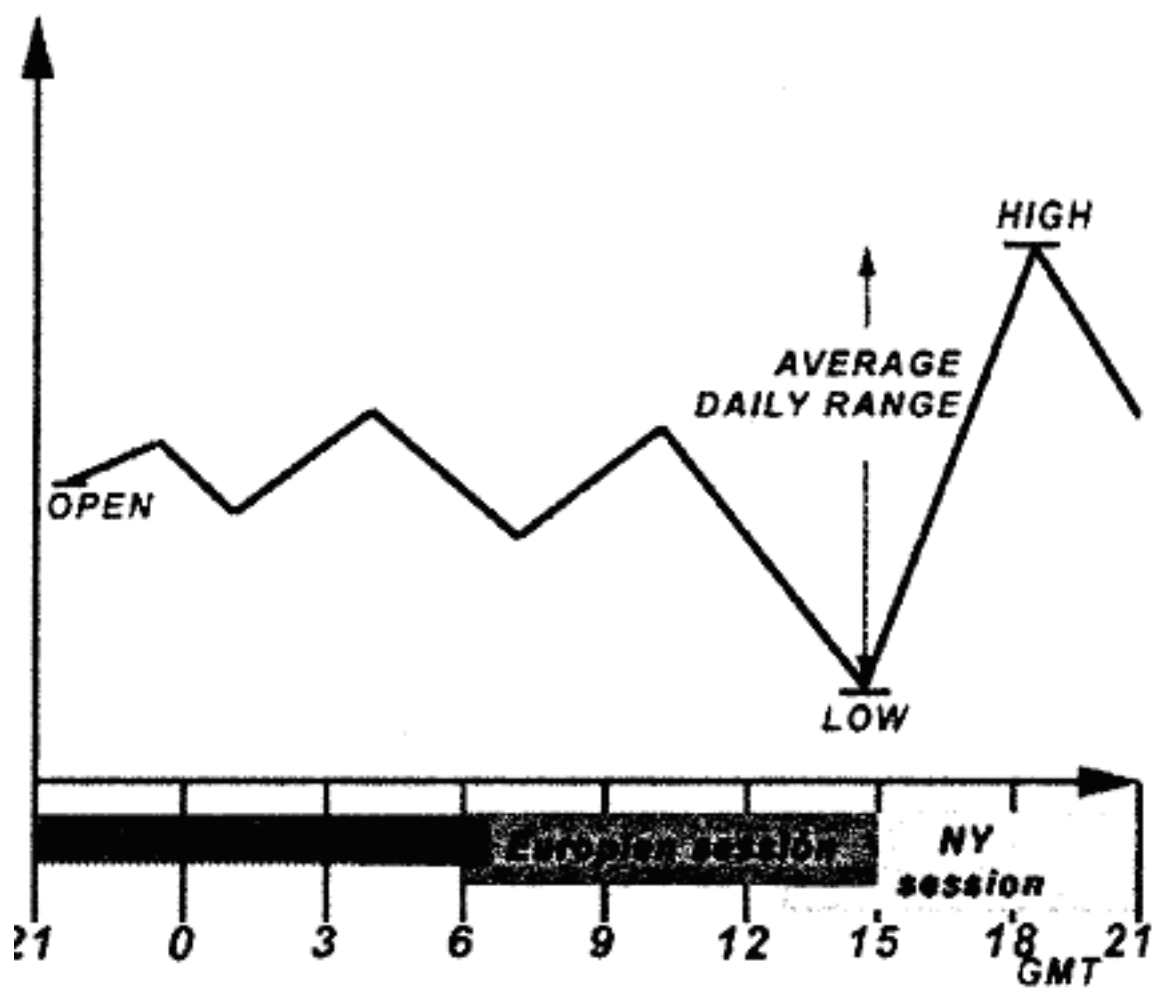


Figure 4.7

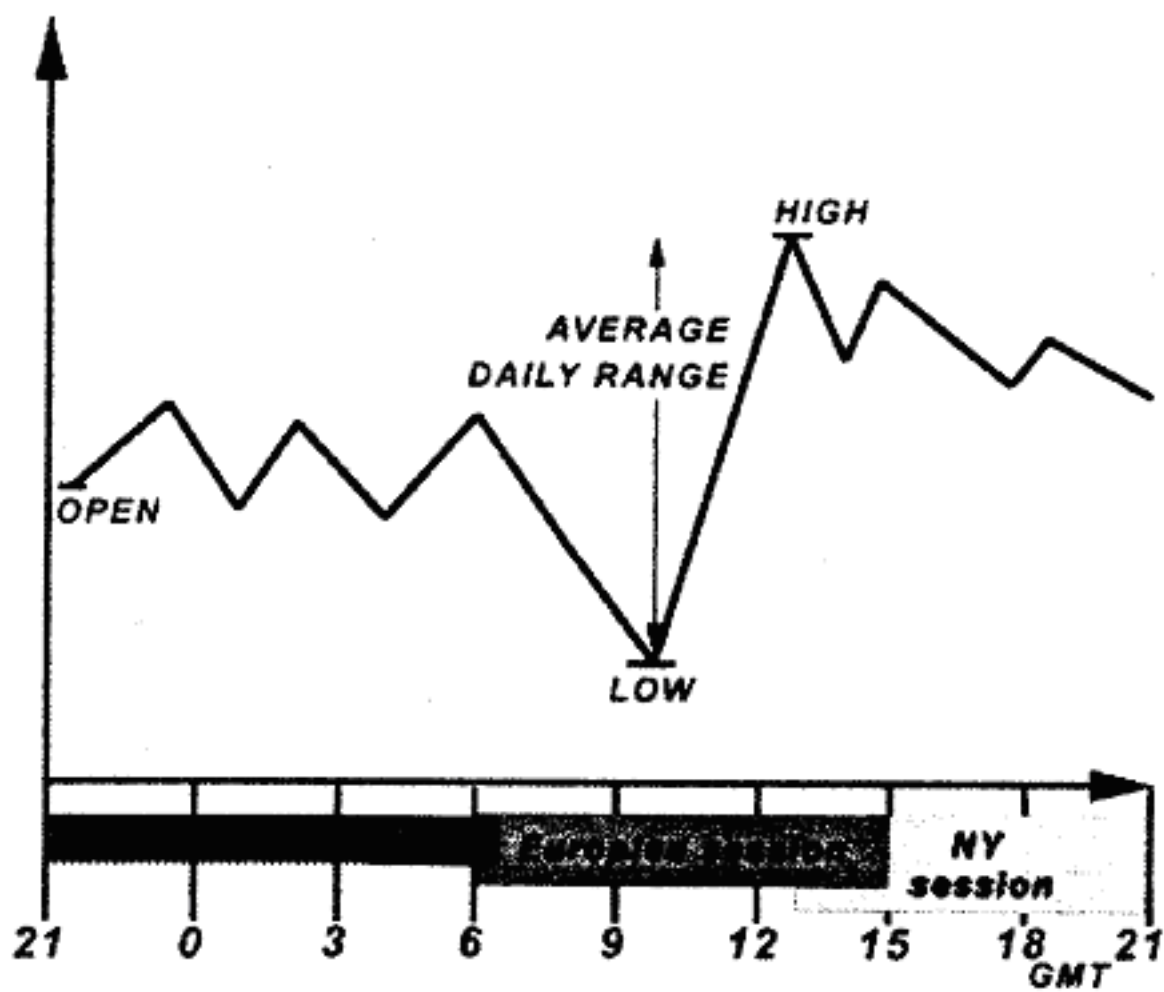


Figure 4.8

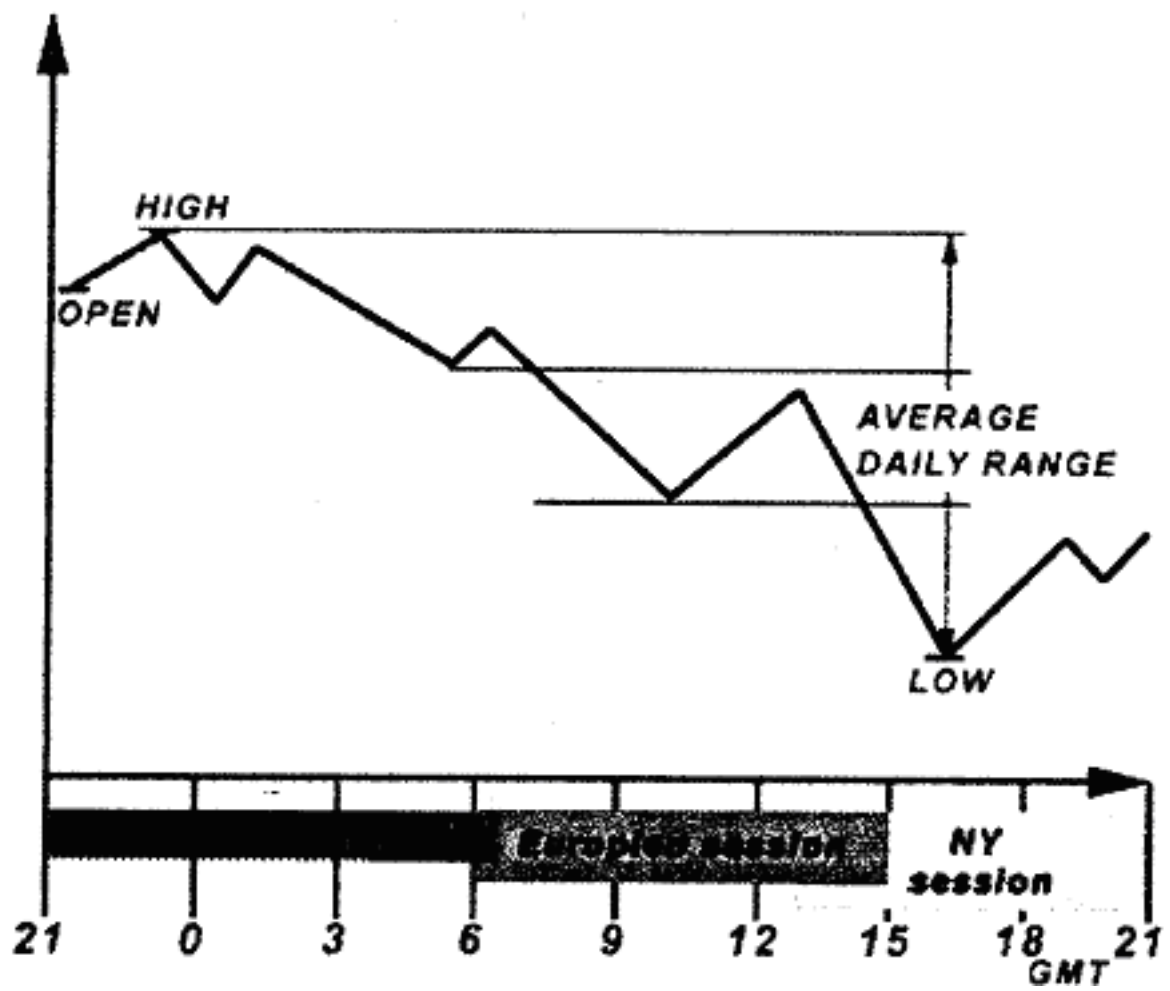


Figure 4.9

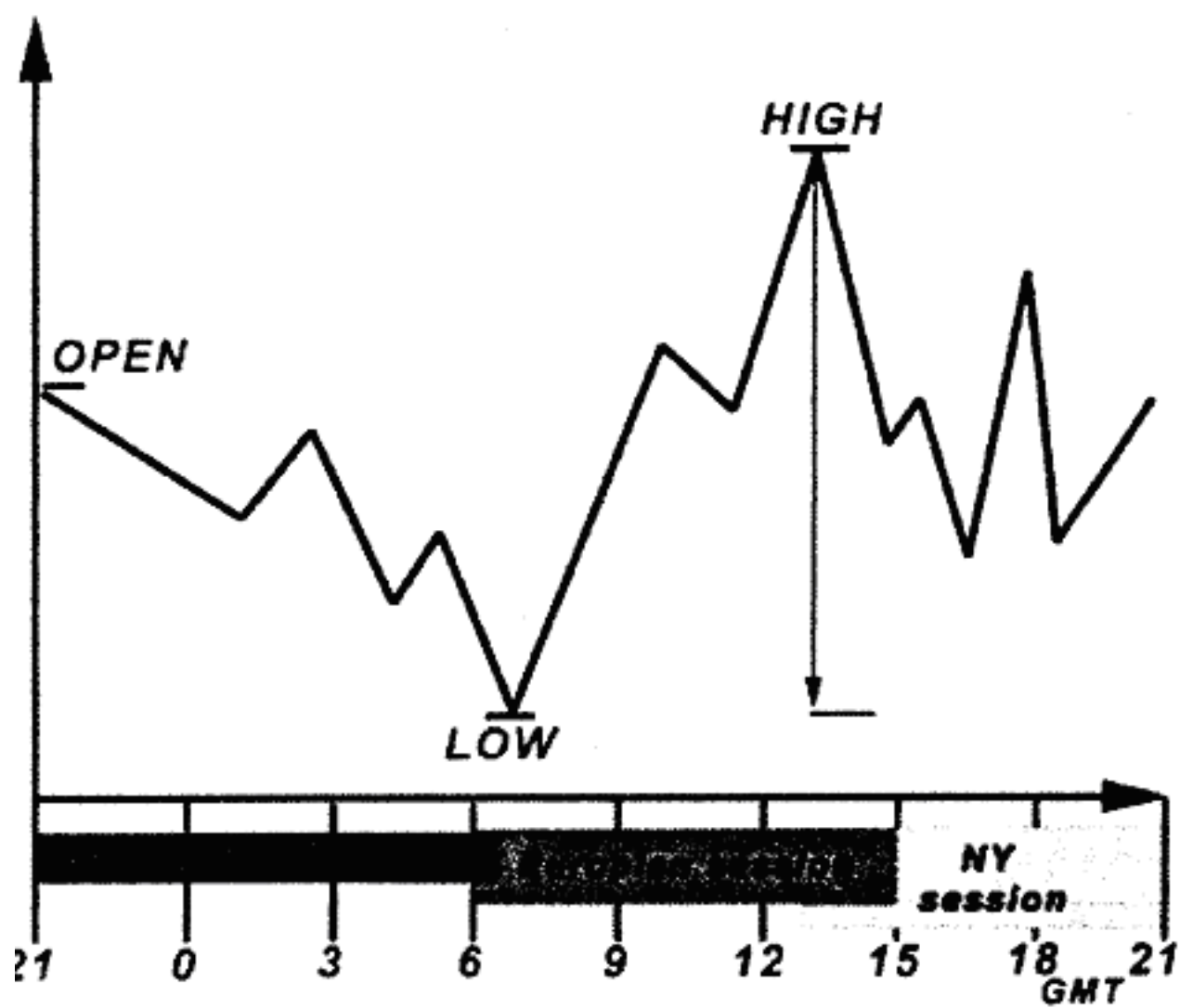


Figure 4.10

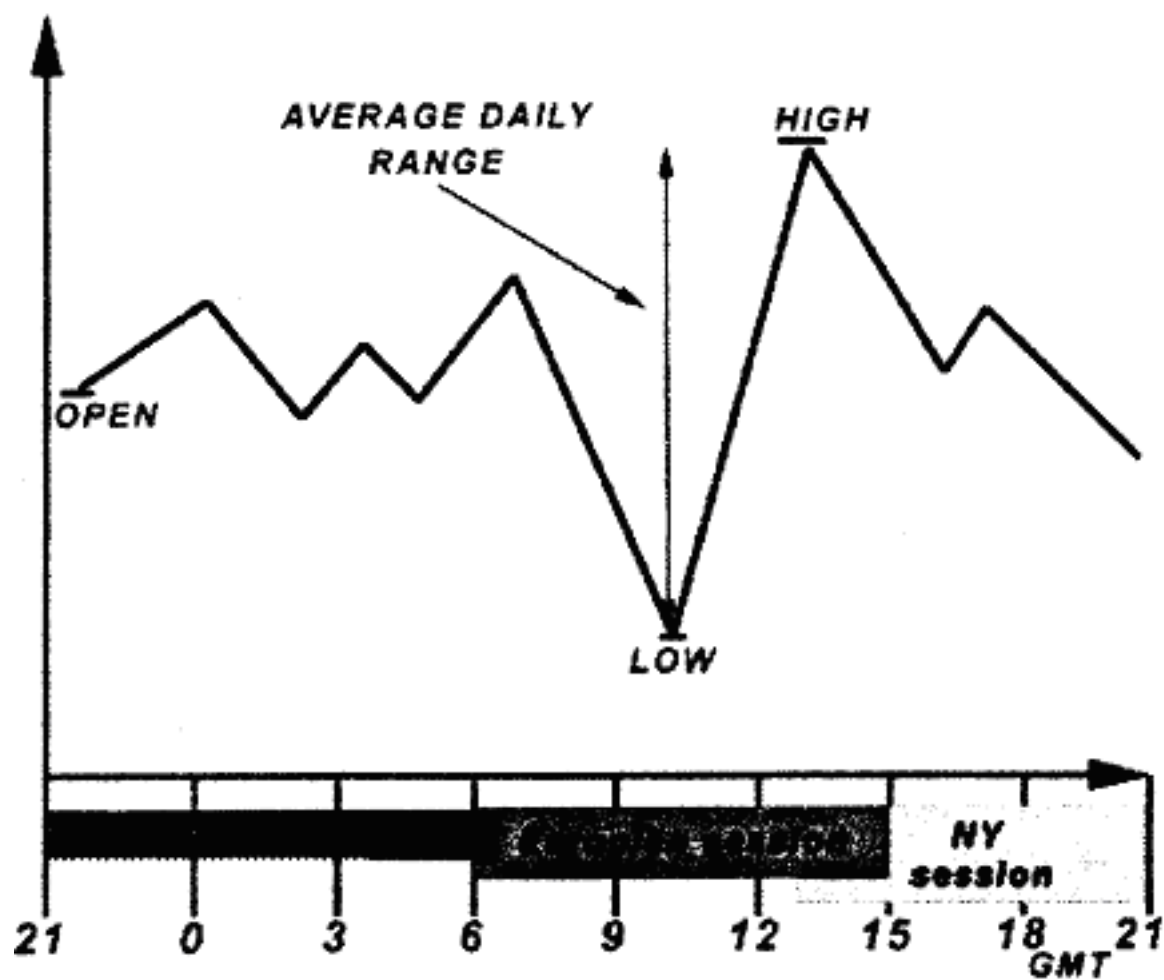


Figure 4.11

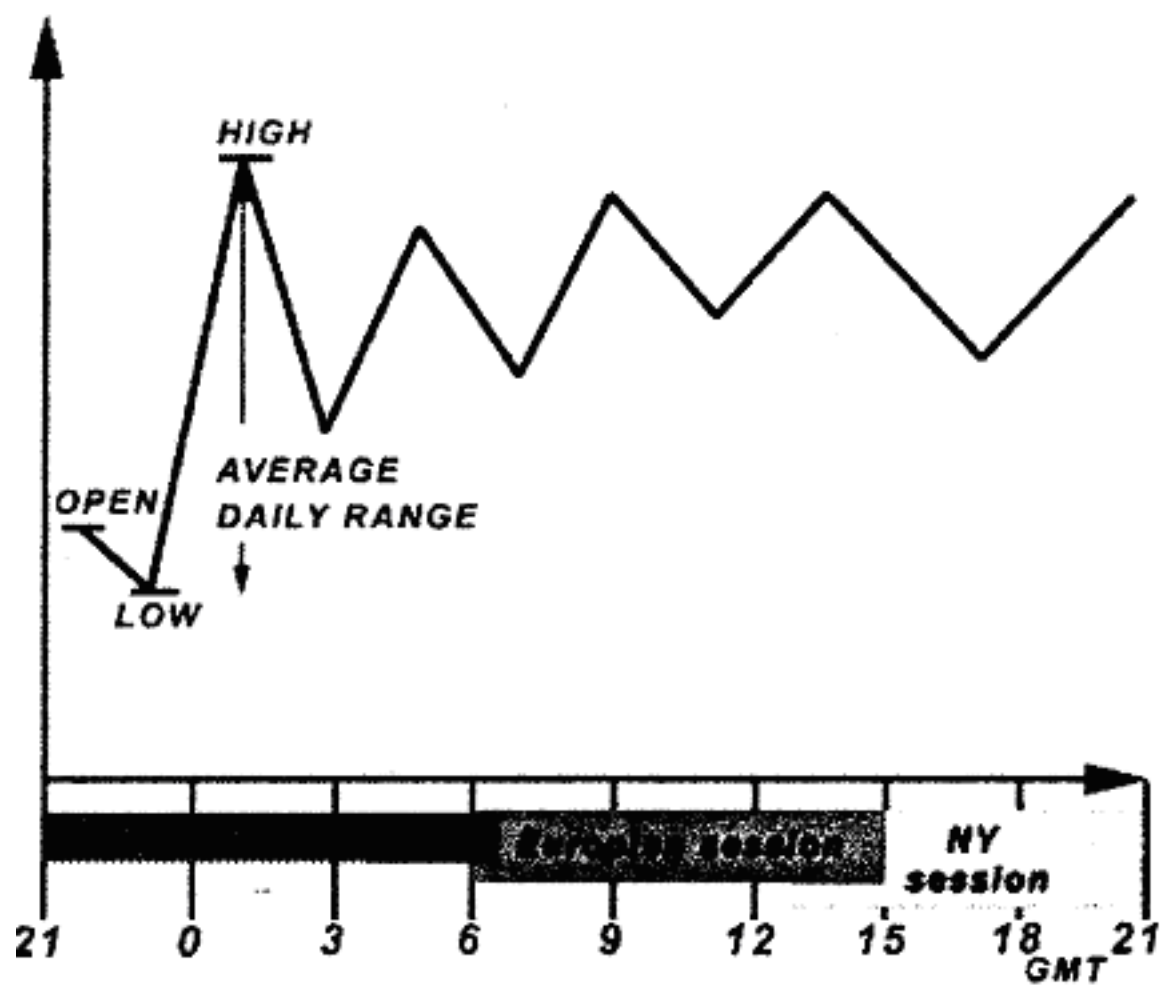


Figure 4.12

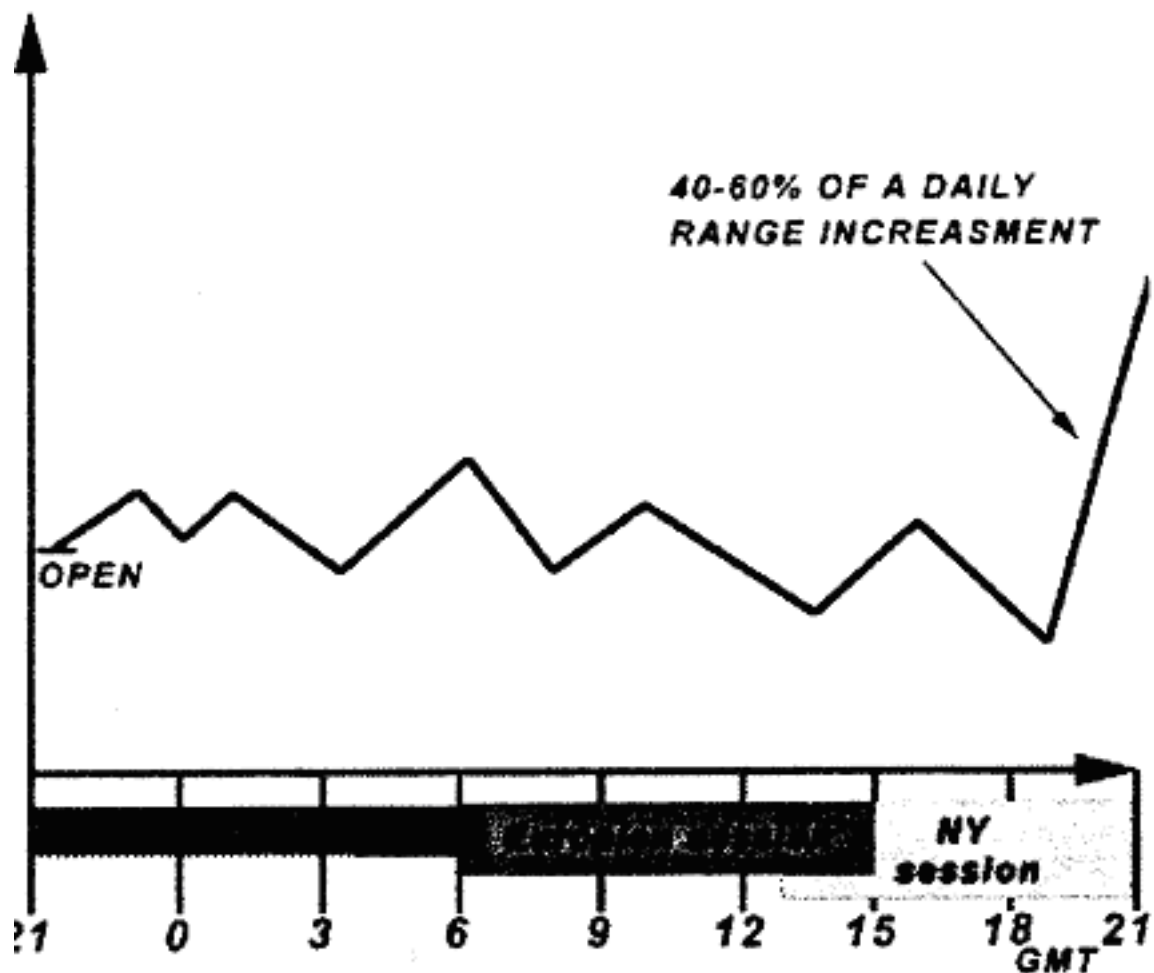


Figure 4.13

Figures 4.5 – 4.13 These pictures illustrate different market patterns in their relation to time matters. As you know, timing is a very important issue in the art of trading, and the ability to identify frequently changing behavioral market cycles can be helpful to a trader.

There were still a great number of other cycles of market activity, and all these possible variations cannot be listed. Because we can identify such cycles, we have a perfect opportunity to make a much more exact probability evaluation of the market movement during the following period of time in one direction or the other direction; and to reasonably plan trader's time. As a trader discovers this regularity, it allows him to change the schedule of his presence in the market, avoiding periods of lowered activity and participating in high amplitude fluctuations. Some cyclic laws even allow you to trade automatically by placing preliminary stops and limits at certain established price levels.

Unfortunately, it is impossible to forecast the end of one cycle and the start of a new one, and also changes in market behavior. There could be many variations, and one or several distinctive features can characterize all of them typically. There are common periods of increased and decreased activity, and some similarity in a sequence of intra day fluctuations during all the cycles. As such cycles basically last from several weeks to several months, the trader almost always has enough time not only to identify change in character of market behavior, but also to use them in full measure for reception of the maximum profit. I try to reach the optimum trading results by selecting appropriate trading templates from my standard set, and adjusting them to a current situation. The adjustment usually occurs at the moment of opening a new position on a timing scale

inside one trading day. During practical studies in the real market, we shall have an opportunity to see how this works.

Chapter 6

Chapter 6. Market model and psychology. Psychology of trading and trading discipline.

Psychology of trading and trading discipline are issues of primary importance for a trader. As I already mentioned above, my desire to reduce a psychological load urged me to create a discrete-systematic trading method.

As there is plenty written on the subject of crowd psychology, market psychology and trading psychology, I don't want to repeat those banal and well-known truths or citings of authors who already have written enough on these subjects. I'm essentially against any citing, and personally prefer to think and analyze everything by myself. Reading those books, I have noticed that the authors usually have no problem "diagnosing" traders' common "illnesses," but each writer offers his own (quite different from others') "treatment." Sometimes, such a "treatment" looks even worse than the "illness" itself. I have a strong feeling that some advice and recommendations, which I have found on this subject, can cause mental illness even in a previously healthy personality. It's a well-known fact that psychiatrists frequently become similar to their patients after long-term practical work, and that is why their recommendations look strange from the point of view of an ordinary person.

I assume that all of us are mentally normal adults, and we shouldn't be engaged in the problem of personal psychoanalysis discussions. According to this, I shall limit myself only to a few most common advice and recommendations regarding psychological issues. The method of trading itself offers reliable protection against excessive emotional pressure and stresses, and I hope you soon will be convinced of this.

As I imagine, it would be much more useful and practical for a trader to understand the nature of business which he participates in, from the very beginning. After this, a trader can develop a correct model of his behavior and his personal attitude to the trading process and to the market in general.

Resolving many problems (both practical and psychological) connected with a trade is impossible without precise understanding of the market structure, its propelling forces and character. These problems arise not by themselves, but are reflections of specific conditions, which a speculator works in. All these are features of the phenomenon we call the market. The mutual relations of a trader and the market are complex, and I consider that it would be correct to try to understand some of these features.

From my point of view, before making a decision to participate in the market, you should correctly imagine what the potential problems are and how to avoid some widespread illusions, which are typical for the majority of beginners. As a treatment should begin with a correct diagnosis, the solution to problems, which a trader will come across, should begin with their formulation and definition. A trader's psychology and the importance of his emotional self-control were already mentioned in one of the previous parts of the course. Now, we will investigate problems of psychology and mutual relations of the market and a trader in more detail.

From my point of view, before making a decision to participate in the market, you should correctly imagine what the potential problems are and how to avoid some widespread illusions, which are typical for the majority of beginners.

What is the market from the point of view of a speculative trader?

I am not going to tell you common truths – what the market is and how it works. There is plenty of information on the formal side of speculative business that you can receive in any book or brochure devoted to FOREX, and also on numerous sites in Internet. I want to offer you my personal vision of speculative trade problems. It seems to me that my version of an explanation of the market and specific features of a trader's profession (though not indisputable) has the right to exist also.

Two questions stand independently and always will be a subject for discussions:

Model of the market.

For a long period of time, I was intrigued by the question oh how to define the market – what it may be compared with, and how to best describe it.

Reflecting on this theme, I suddenly recollected an old event. Many years ago, I witnessed an interesting scientific experiment devoted to questions of family cooperation and the ability to spouses to work together in order to achieve their objectives. One of the tasks was organized as follows:

Couples were divided and sent to two separate rooms so they could not exchange words or communicate with one another in any way. They couldn't see one another, either. In both rooms there was a rheostat, which was attached to a common electrical network. Each of the spouses could control voltage in the network on a scale of the voltmeter installed near each rheostat. Both spouses were operating with only one's own rheostat and change of voltage in an electrical network, without coordination of their actions. The goal was to bring the pointers on the voltmeter scales to a certain fixed position by coordinating both spouses' efforts.

As far as I remember, only one couple out of twenty was successful. The husband shot the pointer of the voltmeter to an extreme position, and therefore gave his wife an opportunity to quietly bring the pointer of her device to the required position. All the other couples didn't make it, because (despite a common goal) they couldn't coordinate their actions. Every time, the pointer of the device passed through the required position and couldn't be fixed, as each of the participants of the experiment acted according to their own ideas and did not consider the actions of their partners.

It seems to me that here we can draw a parallel to a market where the lack of cooperation of participants results in constant and unpredictable fluctuations of the exchange rates. Because the number of participants in the market is much bigger that it was in the described experiment, irrational movements and large volatility of the exchange market shouldn't surprise us.

The result of correct guessing of market reaction to economical or political changes is not better, and may be even worse, than flipping a coin in order to make a decision.

Predictability of the market.

The question of predictability of the market always was and always will be one of the primary discussions among speculative traders. If and how it's possible to forecast the market, traders will argue anyway. As the absolute majority of traders is engaged in forecasting, it's not difficult to come to the conclusion that the common opinion of the majority is that the market can be predicted. There are many market analysts offering their services and selling to traders their own analyses and forecasts. This fact speaks in favor of forecasting, too. At the same time, I constantly hear many of my fellow

traders complaining that market behavior frequently contradicts fundamental realities of an economy or a political situation.

The result of correct guessing of market reaction to economical or political changes is not better, and may be even worse, than flipping a coin in order to make a decision. For many traders, the situation is similar. They also try to predict the future behavior of a market, but only on the basis of technical analysis and with the approximately same result. At the same time, it would be wrong to insist that the market should ignore events and factors of fundamental character while they definitely are its main driving force. It seems to me that the basic reason for disharmony between an event and consequences of this event is that the fundamental factors influence the market not directly, but are refracted through the market participants' perception.

The question of predictability of the market always was and always will be one of the primary discussions among speculative traders.

Let's make a short list of possible reasons for a "wrong" market behavior:

1. Different traders interpret differently the same fundamental factors.
2. The intents of various market participants are different, as well as reasons and purposes of conducting a transaction. It may be hedging, purchase of currency with the purpose of financing the international commercial project, or a bargain for a speculative profit.
3. As the market is simultaneously influenced by the various fundamentals and contradictory forces, the final reaction can vary, causing fluctuations of the market, and not comply with the expected reaction to some fundamental event or process.

I have a perception which seems to me capable somehow of explaining unpredictability of the market, and its discrepancy to the fundamentals.

Despite the opinion spread among individual traders, the main market participants – banks and other financial institutions involved in speculative operations of FOREX – aren't something extraordinary at all. The large participants are not many-headed dragons, offending the weak and taking away money from small speculators, as they are frequently represented to a beginner. Besides the fact that they move huge capital in the marketplace and their transactions cause movement of the market (and hence, significant change of the exchange rates), this capital is moved by ordinary people with common weaknesses. They have no ability to see the future, and they make serious and sometimes even fatal mistakes as well. Bankruptcy of such whales of financial world as "Barrings Bank," "Long Term Capital Management Fund" and "Tiger Fund," which have taken place lately, are fresh examples of trader's mistakes resulting in fatal consequences and ruining formerly mighty financial structures.

It is quite possible that some movements of the market are provoked by such erroneous transactions. A few years ago, I found interesting statistics, according to which the average career of an institutional trader lasts only up to 4-5 years. After that, people either leave for higher positions not related to trading, or completely change their career. For such a short period of time, it's impossible to become a true professional, so I have come to the conclusion that many dilettantes play on the market, causing all its difficult-to-explain fluctuations with many different consequences.

How to treat the market.

To develop the correct attitude to a market will require some time and efforts spend on psychological preparation. You have to accept the fact that the life experience you had

when you decided to become a trader is absolutely useless and even harmful to your new profession. This should become the first and most important step in your psychological preparation. If you belong to the majority of mankind (i.e., have normal mentality and standard reaction to irritants), in conditions of the market your vital experience and habit to think with common sense will not take you anywhere. Your standard thinking will automatically take you to a majority that thinks the way you do. Unfortunately, the market is arranged in a manner that each time you join the crowd, you will definitely lose.

There is a simple and logical explanation that is clear at the common-sense level, but not everything associated with common sense is as simple as it seems. It's accepted that each person has common sense, including you and me. Meanwhile, something we name as "common sense" often happens to be an illusion, a simplification or a "political correctness" which has no direct connection to common sense. These illusion and political assumptions help us to live in a society and make us similar to others, but for trading the market, such an attitude will be negative in the long run.

You have to accept the fact that the life experience you had when you decided to become a trader is absolutely useless and even harmful to your new profession.

The majority of traders in the market are always wrong, and the most common and widespread opinion concerning the future market is (in the absolute prevailing majority of cases) incorrect. Conclusions and choice made by a crowd are always wrong and lead to money losses at speculative trading operations. To avoid possible disappointments, it will be useful for a beginner to remember the following basic postulates:

- 1. Try to have an opinion concerning the future market's behavior. Trade only according to your trade system and only on signals which the market itself gives you.**
- 2. Try to avoid "wishful thinking". If you have an open position, first of all pay attention to signals which contradict your point of view, instead of those confirming it.**
- 3. Listen attentively to other trader's opinions. Share your ideas with colleagues on Internet forums and in personal dialogue. If half of your colleagues-traders approve your idea, double your vigilance. Check up and analyze a situation once again, for a possible mistake. If you have found that the absolute majority of traders shares your point of view, immediately abandon your initial plan of trading and make a new one. In the new plan, you should assume that the market most likely would choose an opposite direction. The strict disagreement of the majority with your opinions on current events in the market is additional and valuable confirmation of the correctness of your position. Such confirmation should give you an additional reliance in the correctness of your decision.**

Besides this basic conclusion, I offer you some recommendations on how a trader should think so that the problems of human psychology have no negative effect on his work.

Concerning the market:

- 1. None of the experience, mind, ability and success of an individual in other kinds of activity is guarantee of success in a trader's profession.**

- 2. Common sense does not work in speculative trading in the market.**
- 3. Almost everything that you think about the market does not correspond with reality.**
- 4. Everything a majority of market participants consider obvious is actually never that obvious.**
- 5. The “more obvious” a current market situation is, the more unexpected its further development will be.**
- 6. The market always goes against the opinion of a majority.**
- 7. If in the past you didn’t have the ability to foretell the future, don’t have the illusion that you can ever precisely forecast future market behavior.**
- 8. Events on the market always develop under the most improbable script, and never comply with your expectations or with the point of view and forecasts of other participants.**
- 9. Even to the most “easily predicted” price levels, the market comes in the most confused way.**
- 10. Try to predict the future behavior of the market – it is good gymnastics for your brains. Never trade on your forecasts. You need other tools for this purpose.**
- 11. Any market’s behavior has a suitable explanation. The reasons for this always become known too late.**
- 12. Accept the market as a natural phenomenon, which you are not capable of understanding, explaining or predicting.**

Concerning profit:

- 1. The market is not a charitable organization and is not capable of ensuring profit not only to all participants, but even to a majority.**
- 2. Profit received by a trader does not materialize from nowhere, and is formed at the expense of someone else’s losses.**
- 3. The market exists only because the redistribution of money always occurs at the expense of the majority of the participants for the benefit of the minority.**
- 4. Any position open by you can become unprofitable.**
- 5. When trading on the market, you should never be 100% sure about anything.**

The recommendation to an independent trader (to a beginner):

You should precisely and completely realize that your trading account is only a tool for making money, but not money itself. From the moment your money was placed on the working account as an investment, it lost its usual functions inherent in money as a universal remedy of payment. This “money” can’t symbolize for you an ability at any moment to exchange it for a new automobile or to spend for realization of other boons and pleasures. From this moment, your investment becomes for you only a tool of making money (this time real money, with all attributes inherent to it).

I hope that if you can produce for yourself a similar attitude to the market, work itself will turn for you into an ordinary and quite routine business without excessive stress.

Discipline of trading.

Always apply discipline to your trading. Without discipline, trading is impossible, and the knowledge you acquire from studying this course is absolutely useless. If you do not find enough strength and do not consider following all rigid rules and have discipline, you would do yourself a big favor by immediately refusing to participate in this business. Even in this case I consider my course useful, since such a decision will save you a lot of your time and money.

Chapter 7

Trading strategy during the intervention of Central Bank.

From time to time, the Central Bank within a particular country, alone or with the support of the Central Banks of other countries, launches currency interventions into the market by buying up the weakening currency, in an attempt to artificially keep its rate stable. Bank of Japan (BoJ) is especially notable for such actions. It makes sudden and large-scale purchases of currency packages, thus keeping the yen rate against the dollar, or vice versa. This depends on the end of the currency channel acceptable for the CB at which the current rate is located. These actions of the Central Bank always cause strong, fast and large amplitude movement, which may result in dramatic consequences for the trader, leading to complete loss of his trading account. If the trader is not ready for such action, this movement may inflict irreparable damage on his account within a few minutes.

To lower the risk of the loss during a sudden intervention and to use interventions for the trader's benefit, he should know and always remember the traits of this phenomenon, which is not rare in the currency market.

The first trait of an intervention is the direction of its movement. An intervention is always undertaken in the direction opposite to the main current trend. This can be seen in daily and weekly charts of currency rate fluctuations. **(Figure 4.14)**



Figure 4.14

Every CB's intervention usually provides very good opportunity to make a profitable trade with very little risk or even no risk at all. With a CB on your side, you can join its action and ride the market on its expense.

The second trait is the amplitude of the movement. One should remember that an intervention is aimed at a significant correction of the present rates. This amplitude fluctuates from 300-600 pips, depending on the scale of the intervention and the number of its participants. During “concerted” interventions, when several Central Banks of different countries participate in them, the amplitude is more considerable. Here, there are almost no cases in which the market returns to its pre-intervention levels during the same business day. It is also of great importance that, as a result of the intervention, even a minimum amplitude (300-350 pips) of the market rate fluctuation gives us an excellent opportunity to make a profitable transaction at almost no risk. (Figure 4.15)

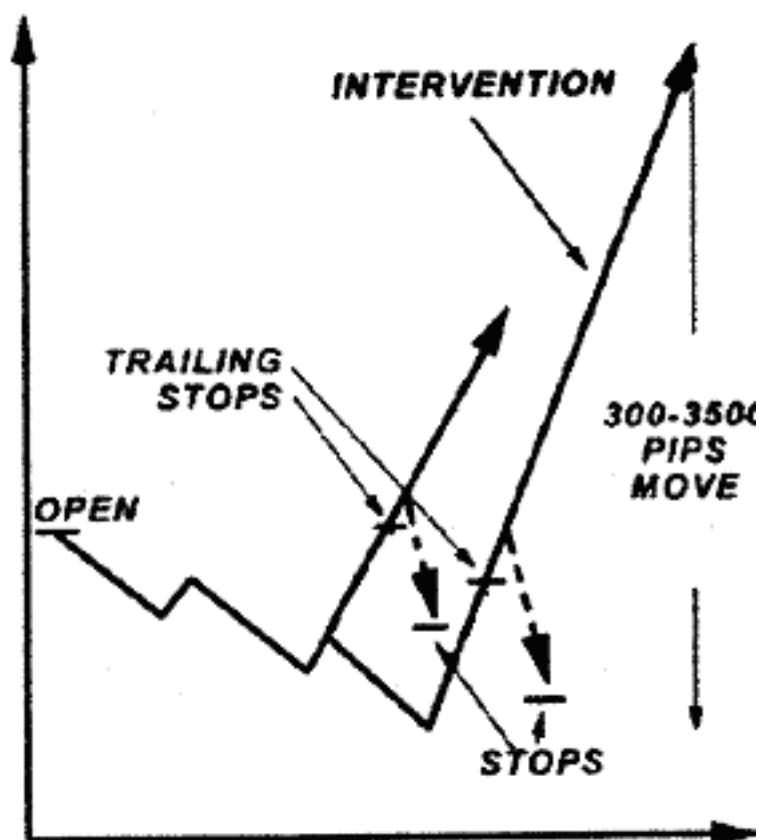


Figure 4.15

The third trait, which is also favorable for the trader, is the fact that rumors and information of a potential intervention appear on the market some time prior to real intervention. This helps the trader take necessary measures and get ready for such events.

Basing on these traits, the trader should use the following strategy and tactics for the possible coming intervention:

Using the information that the present price level is unacceptable for certain Central Banks, I come to the conclusion that the market has entered the zone where the possibility of an intervention is high. From this moment on, at the beginning of each trading day, I place the “trailing” stop-loss order to open a new position at the distance of 70-100 pips from the current market price. I do so on the assumption that, if the movement is fast, then my stop-loss order will work automatically and much earlier than the market will make its minimum possible amplitude during the intervention.

Furthermore, it is necessary to watch market behavior, as several different scenarios of the further development of the events are possible. If an intervention has not been launched but, for some reasons, the market has turned back and is approaching your

stop-loss order **slowly**, you should cancel your stop-loss order and transfer it farther – keeping the same distance of 70 – 100 pips from the current price. Slow movement of the market (even in the same direction where the possible intervention is to be launched) is unacceptable for us, as our “trailing” stop-loss order was placed only on the expectation of the following event. If the position is triggered in the absence of the event we expected, our “trailing” stop-loss order is probably not going to work efficiently.

If the market continues its movement in the main trend, then in every 30-40 pips from its movement, you should place your “trailing” stop-loss order at the level, which is closer to the current market price. (Here, it is essential to know that you should always begin with placing a new stop-loss order; and, only after that, cancel the old one so as not to miss the beginning of the intervention). Let us assume that fast and amplitude movement did take place. It passed through your stop-loss order and opened a new position for you automatically. Immediately after that, you should find the reason for this movement, as it may be caused by reasons other than an intervention.

Timely fixing of the profit should be done, as interventions are usually launched as extreme measures of corresponding unfavorable market rates. In most cases, they are contrary to the objective circumstances of a fundamental nature. That is why the correction effect of an intervention often proves to be unstable.

Sometimes such a movement may be caused by the market reaction to rumors that the CB, which is going to launch an intervention, is “checking rates.” This movement may also be the result of an extremely nervous market reaction to any other event, news or rumors. If an intervention has not been launched, you should square the open position, which was taken, as soon as it has been found out that the surge of the market activity has not been caused by an intervention. You should do so, whether this position gives you a profit or loss at the moment of its liquidation. If the information about the beginning of an intervention has been confirmed and by the moment you found it out the market has passed less than 300 pips, you can strengthen the position. You can do it either at once, or after the pullback of 50-70 pips from the maximum price level of the last movement.

When the market reaches the amplitude of movement of 300-400 pips as the consequences of the intervention, you can pocket the profit in full or partially. If the liquidation is partial, the “trailing” stop-loss order should be placed for the remaining part of the contract. You should place it not farther than the price level of the initial position, so that the profitable trade could not become its exact opposite.

Timely fixing of the profit should be done, as interventions are usually launched as extreme measures of corresponding unfavorable market rates. In most cases, they are contrary to the objective circumstances of a fundamental nature. That is why the correction effect of an intervention often proves to be unstable. A few days after the intervention, the market may come back to the initial “pre-intervention” level. Here, new danger of the CB’s repeated actions might arise. You have to avoid the situation when a successfully opened position, which has been profitable from the very start, may become its extreme opposite. You have to avoid the loss of the greater part of the profit, as well. To attain this goal, you should fix your profit immediately after the market amplitude reaches 300-350 pips, or protect it by placing a “trailing” stop-loss order.

Because most recent BoJ interventions were made just to prevent fast decline of the Japanese yen, the USD/JPY range is usually smaller than 300-350 pips; and you have

to adjust your tactic accordingly, by having closer entry stops and taking quicker profits if you are not willing to take any changes.

Trading templates for short-term and intra day trade.

Disclaimer

All the templates presented in this part of the course are based on statistical regularities, evaluated in accordance with natural market features and its behavioral characteristics. These templates have been tested under real market conditions and have been proven effective in terms of profitability and reliability. These results give the Igrok Trading School a reason to believe that its trading templates may serve the majority of the school students as well as they serve to Igrok himself in real market trading.

However, you have to understand that there is no such a thing in the market as a “sure trade,” and no template was able to provide 100% success when used in real trading. It is also important to understand that, by taking any position, you accept the risk attributed to such an action, which may result in capital losses and other related damages.

It is highly recommended that, before applying these trading strategies to real trading in the FOREX market, you conduct your own full test of the templates on dummy trading before making a decision to use them for trading with actual investment capital. Igrok Trading School does not accept any responsibilities for any loss or other damage caused by usage of the trading templates described below.

Introduction

The templates which I'm about to present you represent the systematic component of my Discrete-Systematic trading method. These templates were created to organize the trading process in the most effective, simple and timesaving way, reduce psychological pressure, and save traders worry and money. Actual trading with use of templates is based on recognition of certain market behavioral patterns, which are described in advance.

To make a trade, you have to choose the correct template, which corresponds with the current market outlook, and then follow the prescribed procedure automatically. Almost all of the templates can be customized to fit the needs of the majority traders in terms of capital size and risk acceptance. Despite the fact that all of the templates described here are divided into chapters devoted to different kinds, the borderlines between templates from different categories are not so clear; and combinations composed by parts taken from two or more different templates can also be used. I believe that such an approach will eventually allow every student of the school to create his/her own individual and unique trading style and technique.

It is highly desirable that you start creating your own trading templates by using the basic ideas and principles described in the Main Course and this particular part of it. As you understand, it was absolutely impossible to research and describe all possible options based on the ideas of this part of the course and turn them into different templates. Therefore, I have placed only those basic ideas, which should give you the ability to start making money from the very beginning. It has to give a solid basis on which you can build your own trading style and technique, without risking too much and wasting money for testing something that may not even work properly.

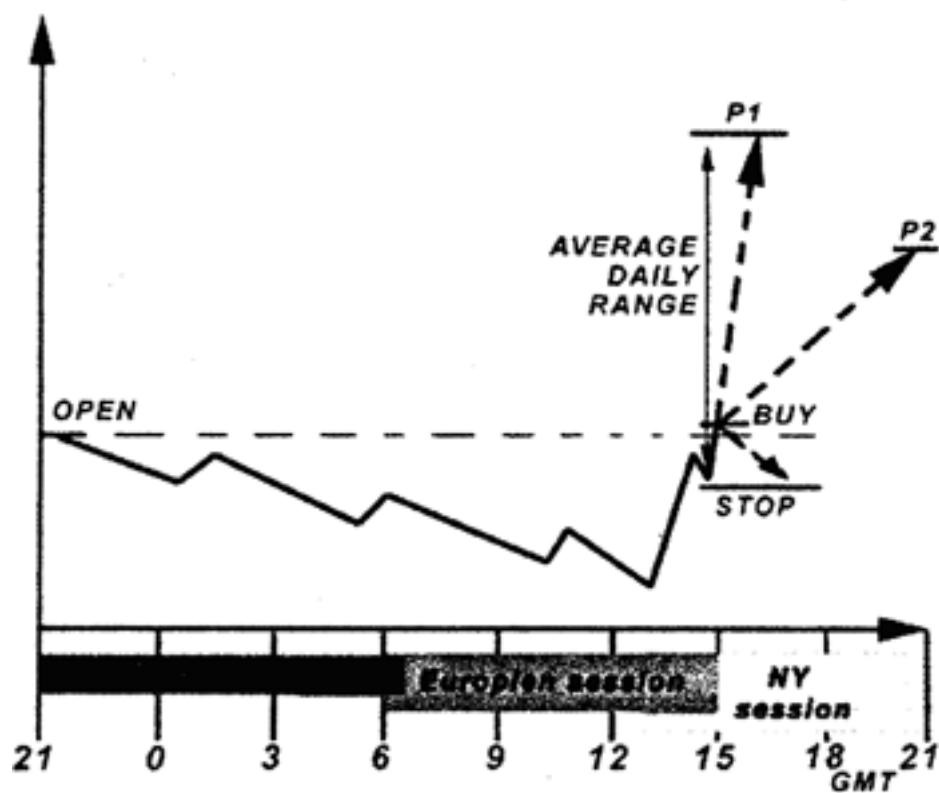
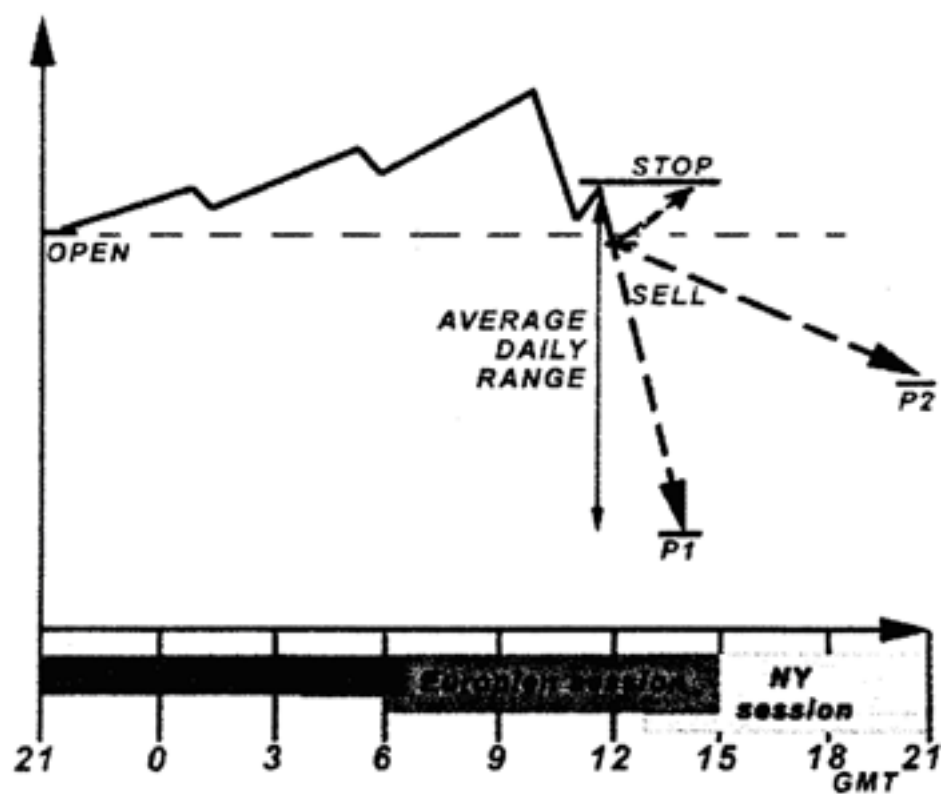
Notices:

1. <i>Potential profit and risks evaluation marks scale:</i>	1. "Very low"	
	2. "Low"	
	3. "Below average"	
	4. "Average"	
	5. "Above average"	
	6. "High"	
	7. "Very high"	
2. <i>Points to take profit (Target):</i>	P1, P2, P3 etc.	
3. <i>Profit/Loss (P/L) ratio estimation:</i>	$P > L$	"Positive"
	$P = L$	"Neutral"
	$P < L$	"Negative"

Template # 1.1

1. Brief situation description:	From the day opening and throughout the Asian session, the market is drifting up and down on both sides from the opening price within a 30-50-pip range but without forming any specific pattern.		
2. Currency, recommended for trade:	USD/CHF, USD/JPY, EUR/USD, EUR/JPY and other Euro crosses.		
3. Trade characteristics:	Basic (conservative).		
4. Trade (entry point) suggestions:	Take a position in the direction of the move on the break of opposite side of the range: 1. Buy on the break of the previous range as soon as the market reaches the top and makes a new high directly after forming the bottom of the range, OR 2. Sell on the break of the previous range as soon as the market reaches the bottom and makes a new low directly after forming the top of the range.		
5. Entry time:	The beginning of the European session, but not later than 2-3 hours into it.		
6. Entry execution:	Entry-stop or market order.		
7. Stop-loss placed:	At the opposite side of the range. (Below the previous range low or above the previous range high).		
8. Reverse if stops triggered:	Recommended with automatic entry stops.		
9. Target(custom choice):	1. 30-40 pips. (P1)	2. Average daily range. (P2)	3. End of the day. (P3)
10. Potential profit estimation:	30-100 pips.		
11. Profit probability evaluation:	“High”		
12. Risk evaluation:	“Low”		
13. P/L Ratio:	“Negative” to “Positive”		
14. Potential clues in favor of the open position:	The position was open in the direction of the most current medium-term trend. (In this case P2 and P3 schemes are preferable.)	2. The market has formed a “flat surface” on the opposite side of the range, where the stops are placed. This is a potential risk warning. Taking profit as soon as possible can solve the problem.	
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	RW: The position was open against the direction of the most current medium-term trend.	S: Limit your profit with 30-40 pips or do not take a position at all.	
16. Additional notices, recommendations and trading tips:	If the market didn’t give you the opportunity to pocket a profit or you didn’t take it for some other reason, then there is a high probability that, after the stops were triggered and position reversed, you will be able to cover the initial loss within the same trading day.		

Template # 1.2 a



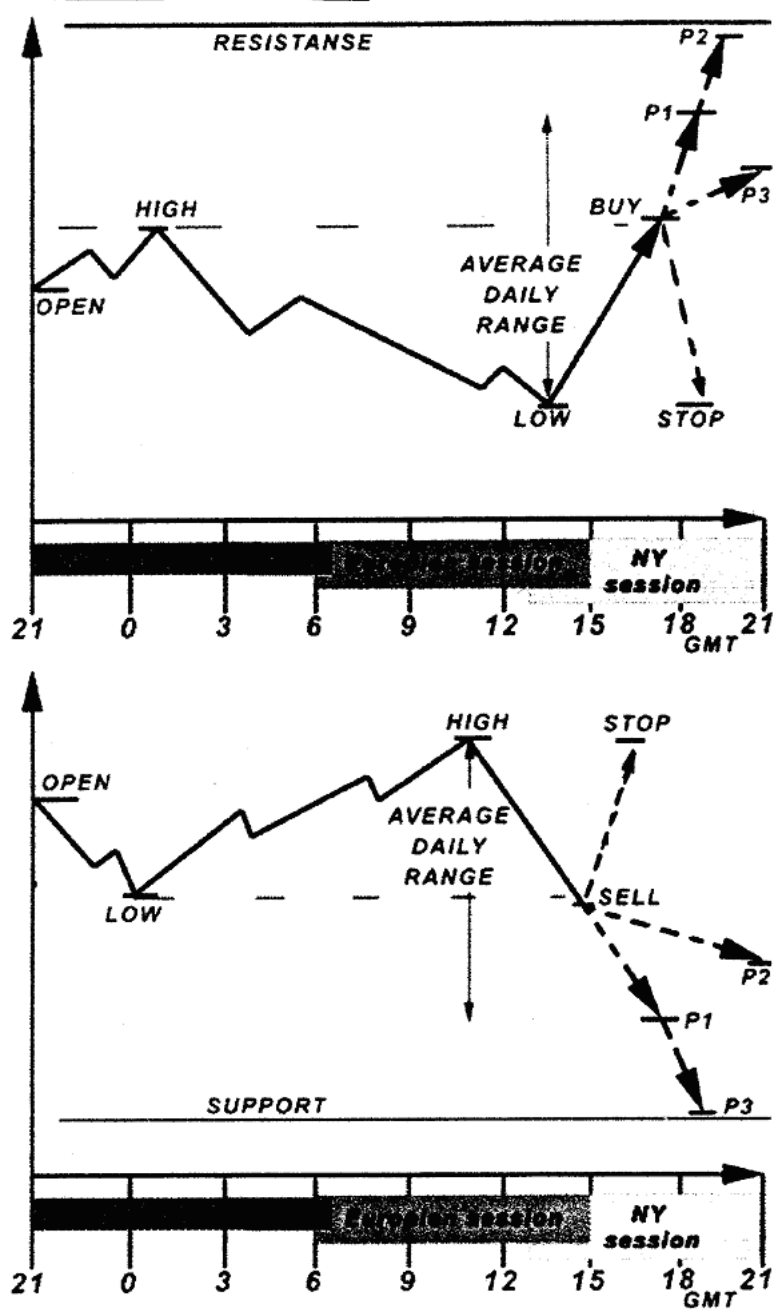
Template # 1.3

1. Brief situation description:	<i>The market has formed the day range 80-100 pips by the end of the European session – beginning of the NY session. Now it's closer to the end of the range, which is opposite to the previous day's main move direction (or the medium term trend direction) after going all the way from the opposite side of the range.</i>	
2. Currency, recommended for trade:	<i>USD/CHF, USD/JPY, Cable, EUR/USD, EUR/JPY and other Euro crosses.</i>	
3. Trade characteristics:	<i>Trade of opportunity.</i>	
4. Trade (entry point) suggestions:	<i>Open a position in the direction of the main move of the previous day (or the medium-term trend) at 30 pips ahead of the day "High" or "Low".</i>	
5. Entry time:	<i>Very late European session and/or NY session.</i>	
6. Entry execution:	<i>Entry-stop order.</i>	
7. Stop-loss placed:	<i>At the closest side of the range.</i>	
8. Reverse if stops triggered:	<i>Recommended with automatic entry-stops.</i>	
9. Target(custom choice):	<i>1. Average daily range. (P1)</i>	<i>2. End of the day. (P2)</i>
10. Potential profit estimation:	<i>100-140 pips.</i>	
11. Profit probability evaluation:	<i>"Average"</i>	
12. Risk evaluation:	<i>"Below average"</i>	
13. P/L Ratio:	<i>"Positive"</i>	
14. Potential clues in favor of the open position:	<i>N/A</i>	
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>N/A</i>	
16. Additional notices, recommendations and trading tips:	<i>If the stops were triggered before the profit is taken, there is a good probability to cover the initial loss within the same trading day.</i>	

Template # 1.4

1. Brief situation description:	The market makes a new intra day “High” or “Low” after going all the way from the opposite side of the intra day range. At this moment the range is 2/3 or more of the size of an average daily range. Just 3-5 hours or less are left till the end of the trading day.		
2. Currency, recommended for trade:	USD/CHF, EUR/USD, EUR/JPY and other Euro crosses.		
3. Trade characteristics:	Basic (conservative).		
4. Trade (entry point) suggestions:	Enter a position in the direction of the move on the break of the previous intra day “High” or “Low”.		
5. Entry time:	Late NY session.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. On the other side of the previous range.	2. On the previous intra-day swing top/bottom.	
8. Reverse if stops triggered:	1. Recommended with automatic entry-stop.	2. Cautiously recommended.	
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. Major trendline, support or resistance. (P3)
10. Potential profit estimation:	30-60 pips.		
11. Profit probability evaluation:	“Very high”		
12. Risk evaluation:	“Very low”		
13. P/L Ratio:	“Negative”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	N/A		

Template # 1.4



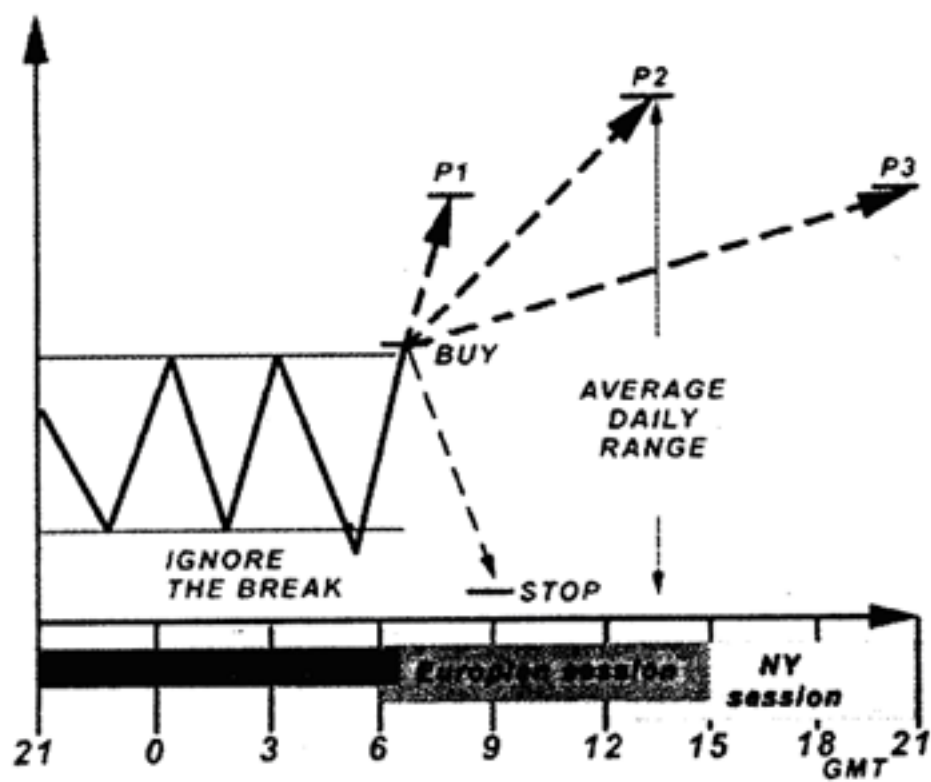
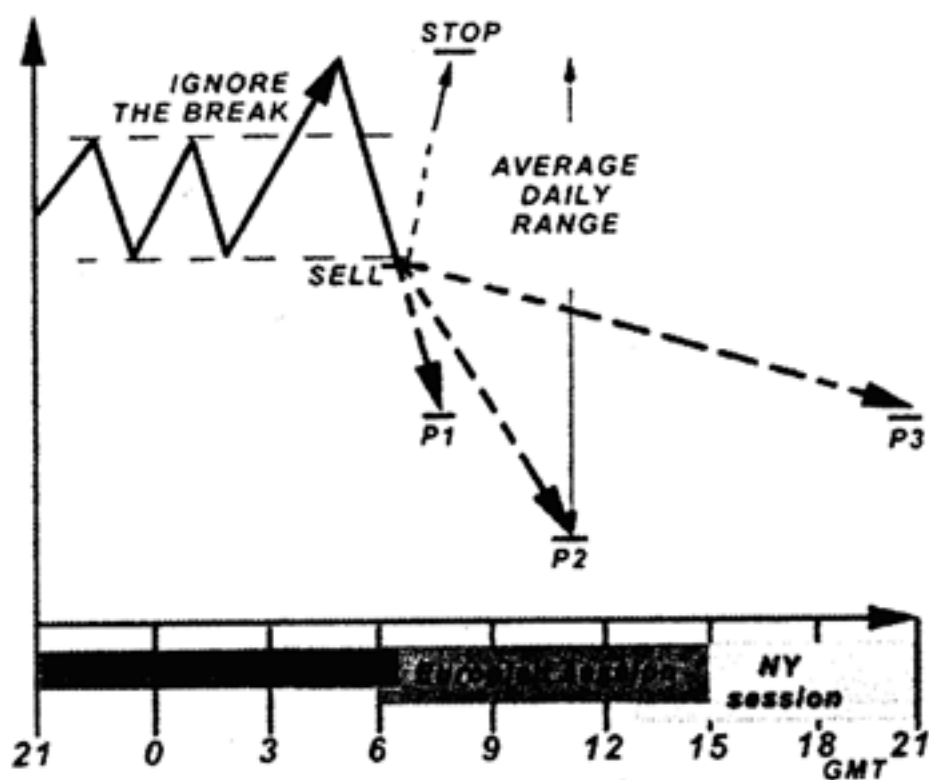
Section 1

Templates based on technical formations.

Template #2.1(A). Narrow intra day channel.

1. Brief situation description:	<i>In the beginning of the day during the Asian session, the market has formed a narrow (20-30-pip) “comb-like” horizontal channel. Then a break on one side occurred.</i>		
2. Currency, recommended for trade:	<i>All majors and crosses.</i>		
3. Trade characteristics:	<i>Basic (conservative).</i>		
4. Trade (entry point) suggestions:	<i>Ignore the first break of one of the sides and enter the market on the break of the second side of the channel. The position has to be taken in the direction of the move.</i>		
5. Entry time:	<i>Asian or early European sessions.</i>		
6. Entry execution:	<i>Entry-stop order.</i>		
7. Stop-loss placed:	<i>At the other side of the previous intra day range.</i>		
8. Reverse if stops triggered:	<i>Recommended automatic entry-stop order.</i>		
9. Target(custom choice):	<i>1. 30-40 pips. (P1)</i>	<i>2. Average daily range. (P2)</i>	<i>3. End of the day. (P3)</i>
10. Potential profit estimation:	<i>30-120.</i>		
11. Profit probability evaluation:	<i>“Very high”</i>		
12. Risk evaluation:	<i>“Very low”</i>		
13. P/L Ratio:	<i>“Neutral” to “positive”</i>		
14. Potential clues in favor of the open position:	<i>The position was open in the direction of the current medium term trend.</i>		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>RW: The position was open against the direction of the current medium-term trend.</i>	<i>A: Take profit in accordance with Target 1.</i>	
16. Additional notices, recommendations and trading tips:	<i>N/A</i>		

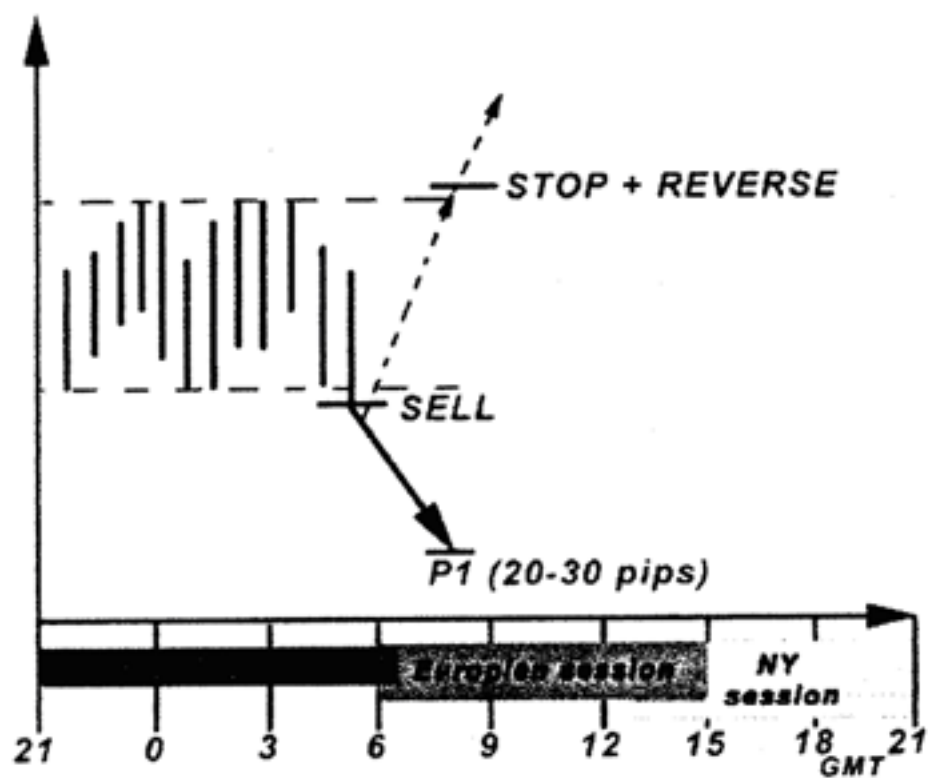
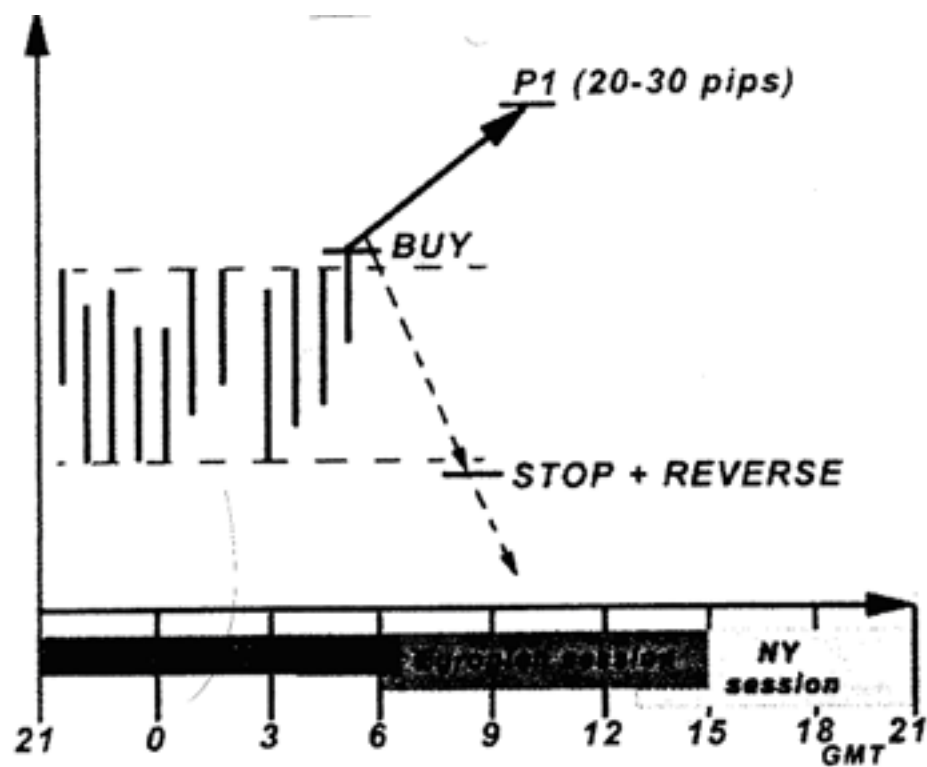
2.1 A



Template #2.1(B). Narrow intra day channel.

1. Brief situation description:	<i>In the beginning of the day during the Asian session, the market has formed a narrow (20-30-pip) "comb-like" horizontal channel. It usually can be identified on 5-10 min charts.</i>
2. Currency, recommended for trade:	<i>USD/CHF, USD/JPY, Cable, EUR/USD, EUR/JPY and other Euro crosses.</i>
3. Trade characteristics:	<i>Optional (risky).</i>
4. Trade (entry point) suggestions:	<i>Take a position on the first break of either side in the direction of the move.</i>
5. Entry time:	<i>Asian session.</i>
6. Entry execution:	<i>Entry-stop order.</i>
7. Stop-loss placed:	<i>At the opposite side of the channel.</i>
8. Reverse if stops triggered:	<i>Recommended (automatic entry-stops order).</i>
9. Target(NO custom choice):	<i>20-30 pips.</i>
10. Potential profit estimation:	<i>20-30 pips.</i>
11. Profit probability evaluation:	<i>"Average"</i>
12. Risk evaluation:	<i>"Average"</i>
13. P/L Ratio:	<i>"Negative"</i>
14. Potential clues in favor of the open position:	<i>N/A</i>
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>Such a trade requires a very precise execution that can be achieved with a good dealer or broker company. It also can be recommended for experienced traders only.</i>
16. Additional notices, recommendations and trading tips:	<i>I recommend this particular trade only because the risk taken is very small. Also, a trader usually has enough time to pocket a small profit in this trade. The reverse (if the stops were triggered) most likely will cover the initial loss soon enough. However, in some relatively rare cases, an unexpected and fast move may happen. It can provide a profit that is much bigger than the projected target shown in this table. (Not a good choice for a conservative trader, though).</i>

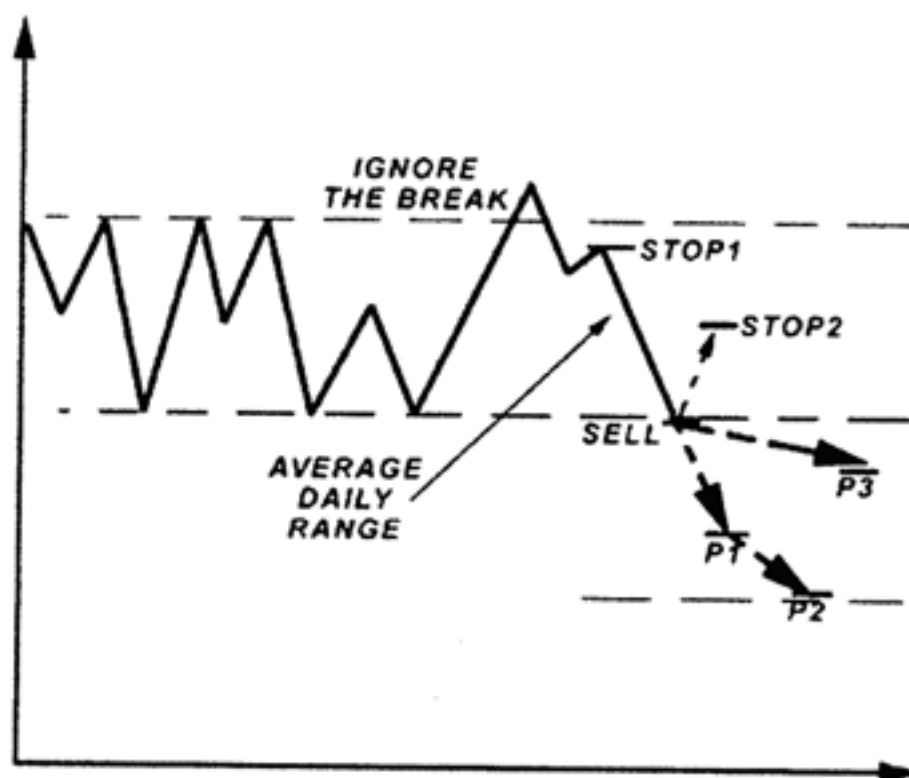
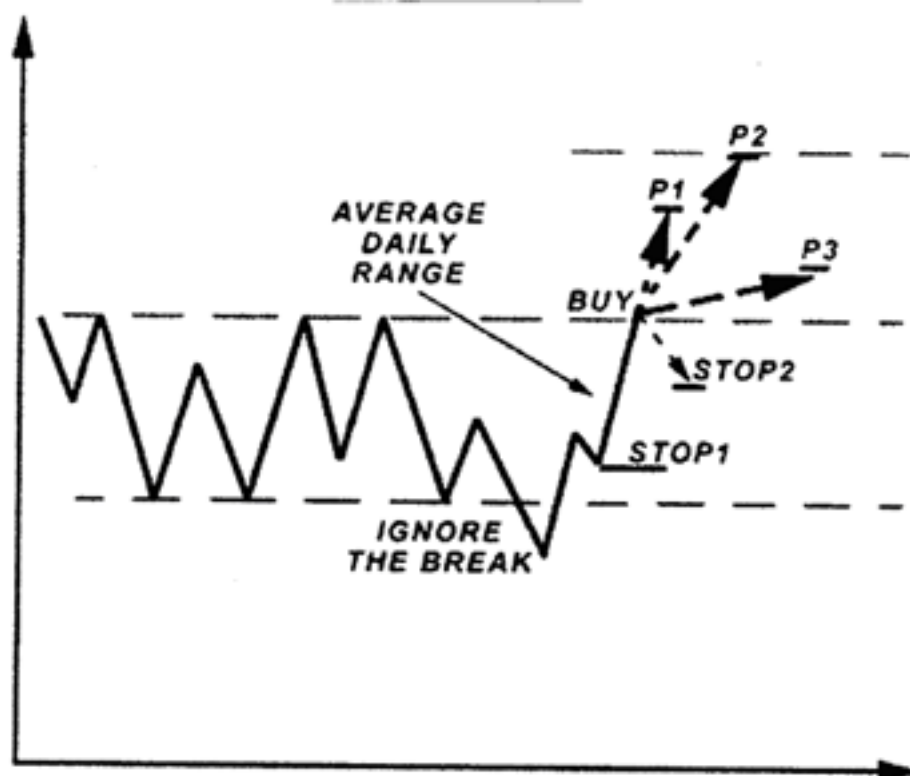
2.1 B



Template #2.2(A). Horizontal channel.

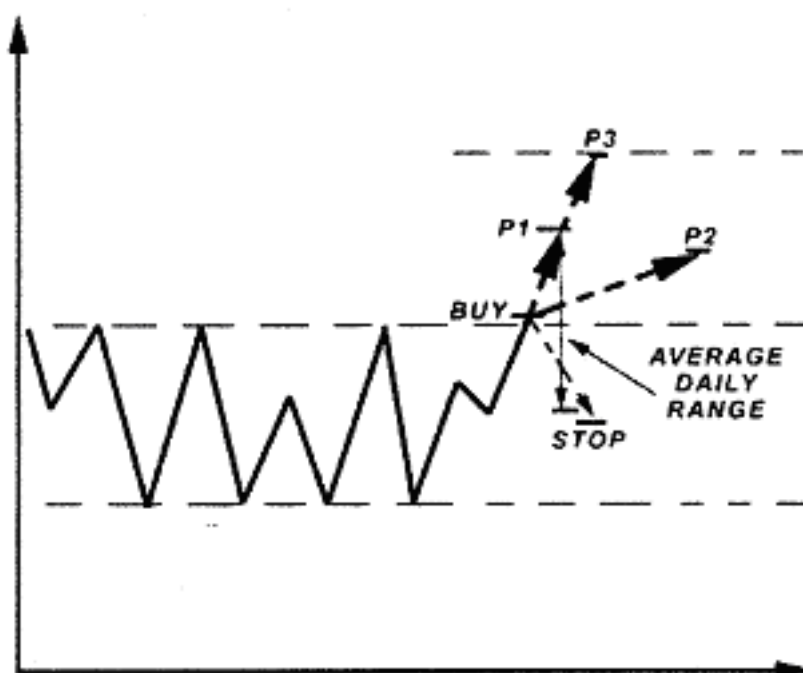
1. Brief situation description:	The market has formed a horizontal channel, which can be identified on hourly and daily charts.			
2. Currency, recommended for trade:	All majors and crosses.			
3. Trade characteristics:	Basic (conservative).			
4. Trade (entry point) suggestions:	Ignore the first break of one of the sides and enter the market on the break of the second side of the channel. The position has to be taken in the direction of the move.			
5. Entry time:	Any time.			
6. Entry execution:	Entry-stop order.			
7. Stop-loss placed:	1. At the other side of the current day range.	2. 20-30 pips below the broken line.	3. Other.	
8. Reverse if stops triggered:	Recommended automatic entry-stop order in accordance with money management individual requirements and technical market picture.			
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. Width of the channel. (P3)	4. Other.
10. Potential profit estimation:	N/A			
11. Profit probability evaluation:	“Very high”			
12. Risk evaluation:	“Very low”			
13. P/L Ratio:	“Positive”			
14. Potential clues in favor of the open position:	The position was open in the direction of the current medium-term trend.			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A			
16. Additional notices, recommendations and trading tips:	Such a trade can also be turned into longer-term position with the technical targets located outside of one day trading range.			

2.2 A

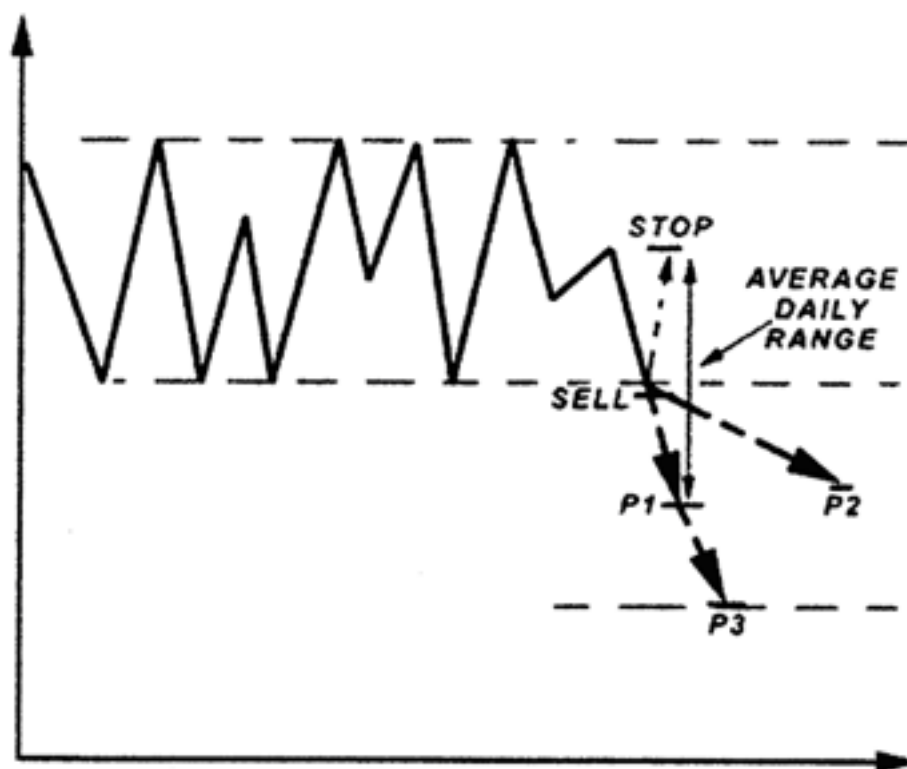


Template #2.2(B). Horizontal channel.

1. Brief situation description:	<i>The market has formed a horizontal channel, which can be identified on hourly and daily charts.</i>			
2. Currency, recommended for trade:	<i>All majors and crosses.</i>			
3. Trade characteristics:	<i>Basic (conservative).</i>			
4. Trade (entry point) suggestions:	<i>Enter the first break of one of the sides. The position has to be taken in the direction of the move.</i>			
5. Entry time:	<i>Any time.</i>			
6. Entry execution:	<i>Entry-stop order.</i>			
7. Stop-loss placed:	<i>At the other side of the previous intra day range.</i>			
8. Reverse if stops triggered:	<i>Recommended (automatic entry-stop order).</i>			
9. Target(custom choice):	<i>1. Average daily range. (P1)</i>	<i>2. End of the day. (P2)</i>	<i>3. Width of the channel (P3)</i>	<i>4. Other.</i>
10. Potential profit estimation:	<i>N/A</i>			
11. Profit probability evaluation:	<i>“High”</i>			
12. Risk evaluation:	<i>“Low”</i>			
13. P/L Ratio:	<i>“Positive”</i>			
14. Potential clues in favor of the open position:	<i>The position was open in the direction of the current medium-term trend.</i>			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>RW: The position was open against the direction of the current medium-term trend.</i>		<i>A: Accept the risk.</i>	
16. Additional notices, recommendations and trading tips:	<i>Such a trade can also be turned into a longer-term position with technical targets located outside of a one-day trading range.</i>			



2.3 B



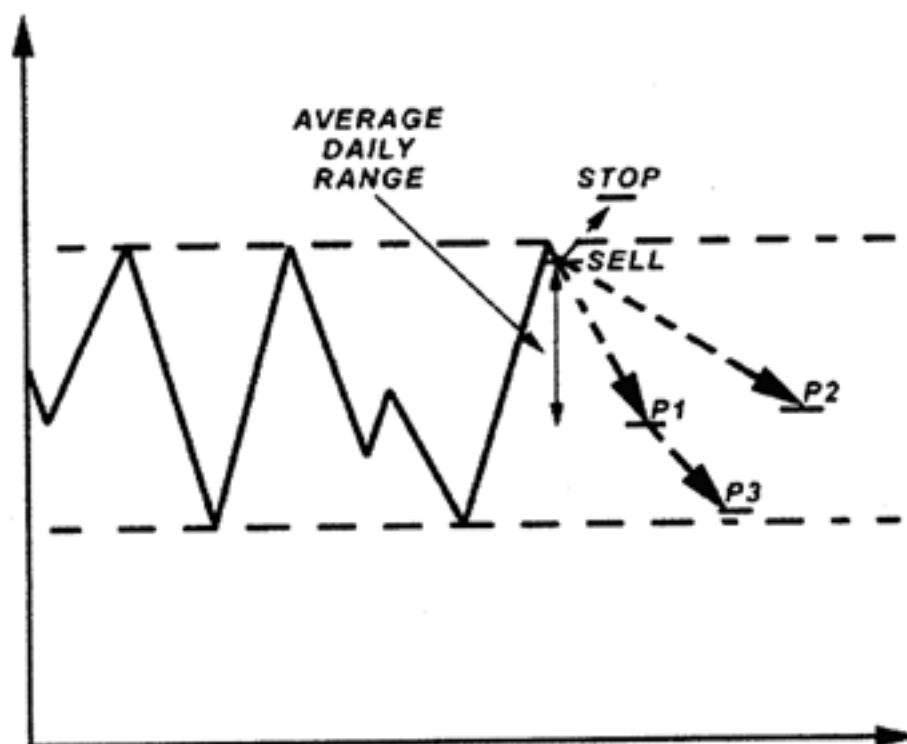
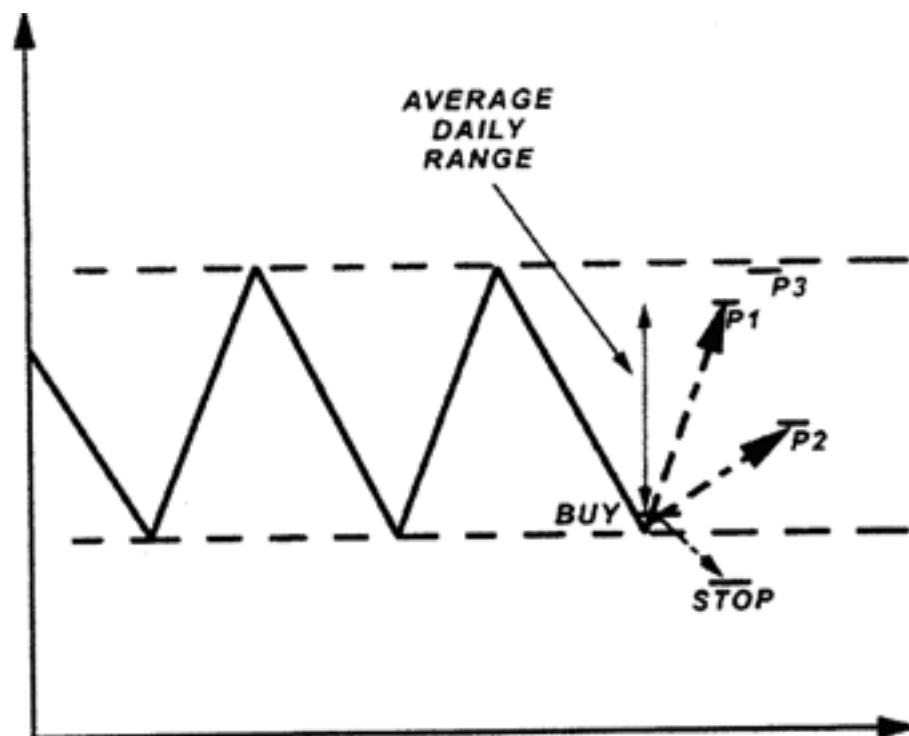
Template #2.3(A). Inclined channel.

1. Brief situation description:	<i>The market has formed an inclined channel, which can be identified on hourly and daily charts.</i>			
2. Currency, recommended for trade:	<i>All majors and crosses.</i>			
3. Trade characteristics:	<i>Basic (conservative).</i>			
4. Trade (entry point) suggestions:	<i>Enter the market at the lower border of an ascending channel or at the upper border of a descending one. The position is taken in the direction towards the opposite side of a channel.</i>			
5. Entry time:	<i>Any time.</i>			
6. Entry execution:	<i>Limit order or market order.</i>			
7. Stop-loss placed:	<i>Right behind the closest border of the channel (10-20 pips).</i>			
8. Reverse if stops triggered:	<i>Recommended (automatic entry-stop order).</i>			
9. Target(custom choice):	<i>1. Average daily range. (P1)</i>	<i>2. End of the day. (P2)</i>	<i>3. The opposite side of the channel. (P3)</i>	<i>4. Other technical level inside the channel.</i>
10. Potential profit estimation:	<i>N/A</i>			
11. Profit probability evaluation:	<i>"Above average"</i>			
12. Risk evaluation:	<i>"Below average"</i>			
13. P/L Ratio:	<i>"Positive"</i>			
14. Potential clues in favor of the open position:	<i>N/A</i>			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>N/A</i>			
16. Additional notices, recommendations and trading tips:	<i>Such a trade can also be turned into a longer-term position with technical targets located outside of a one-day trading range it is open in the direction of a current longer-term trend. (Be careful, because a break usually follows soon after the fourth touch of a line.) If the stops were triggered, then it is possible that the initial loss will be covered very soon after the actual break of the borderline. A position reverse may turn into a trade based on the Template #2.3. (C)</i>			

2.2 C Horizontal line

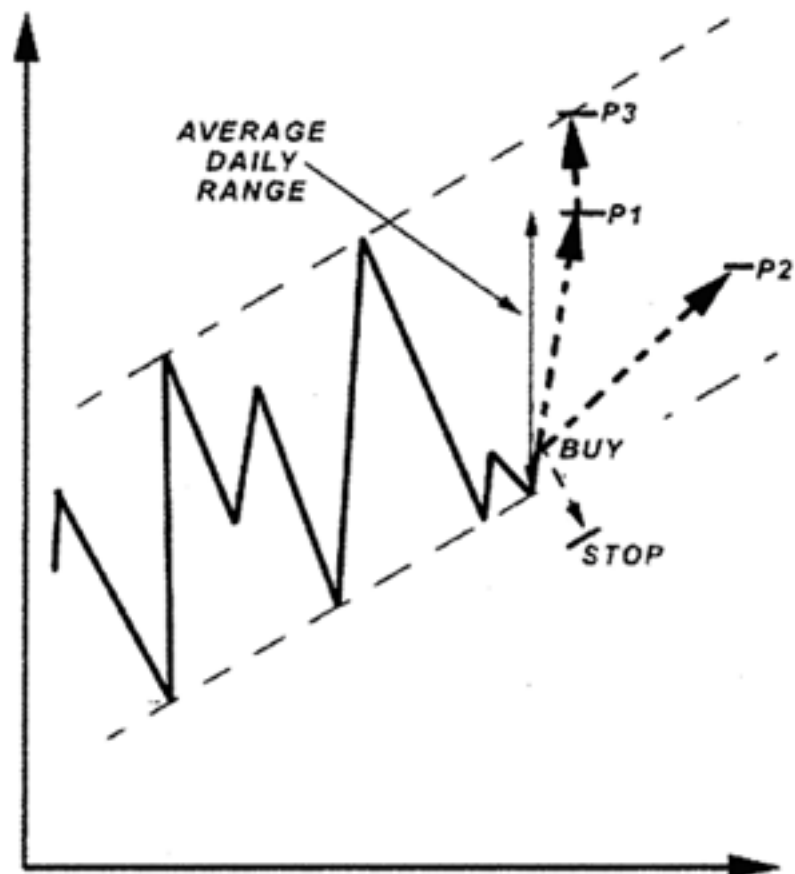
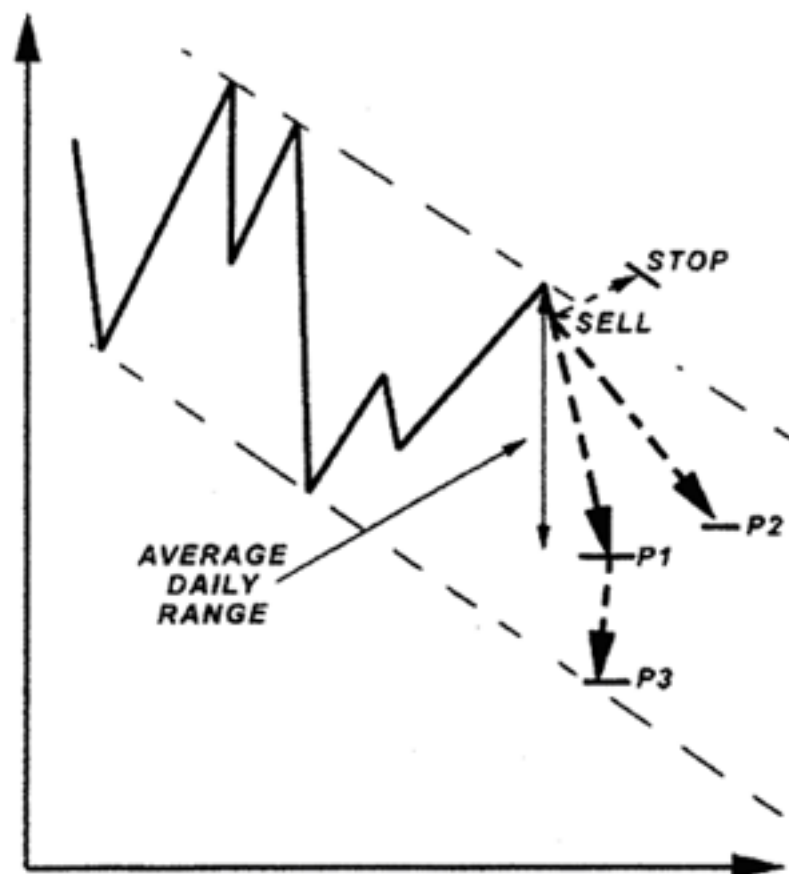
1. Brief situation description:	The market has formed a horizontal channel, which can be identified on hourly and daily charts. There were at least three touches on one side of a channel and two on the opposite.			
2. Currency, recommended for trade:	All majors and crosses.			
3. Trade characteristics:	Trade of opportunity.			
4. Trade (entry point) suggestions:	Enter the market on the third approach to the side. The position has to be taken in the direction towards the opposite side of a channel.			
5. Entry time:	Any time.			
6. Entry execution:	Limit order or market order.			
7. Stop-loss placed:	Right behind the closest border of the channel (15-25 pips).			
8. Reverse if stops triggered:	Recommended (automatic entry-stop order).			
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. The opposite side of the channel. (P3)	4. Other technical level inside the channel.
10. Potential profit estimation:	N/A			
11. Profit probability evaluation:	“Above average”			
12. Risk evaluation:	“Below average”			
13. P/L Ratio:	“Positive”			
14. Potential clues in favor of the open position:	The position was open in the direction of the current medium-term trend.			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	RW: The position was open against the direction of the current medium-term trend.		A: Accept the risk.	
16. Additional notices, recommendations and trading tips:	Such a trade can also be turned into a longer-term position with technical targets located outside of a one-day trading range. Especially if the position is open in the direction of a current longer-term trend and, in this case, a trader can wait and see if the other side of the channel will be broken or not. (A break usually follows soon after the fourth touch of a line.)			

2.2 C



Template #2.3(A). Inclined channel.

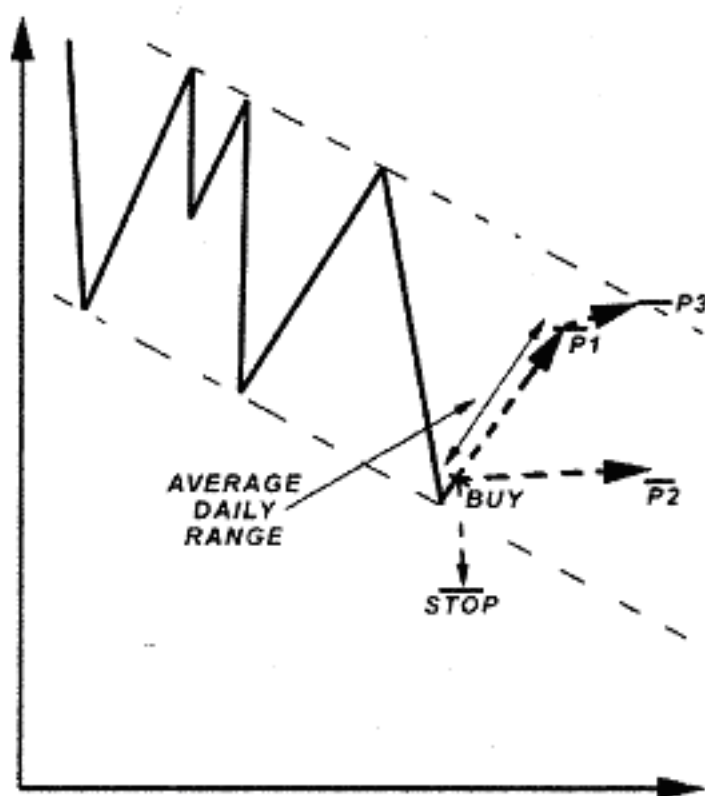
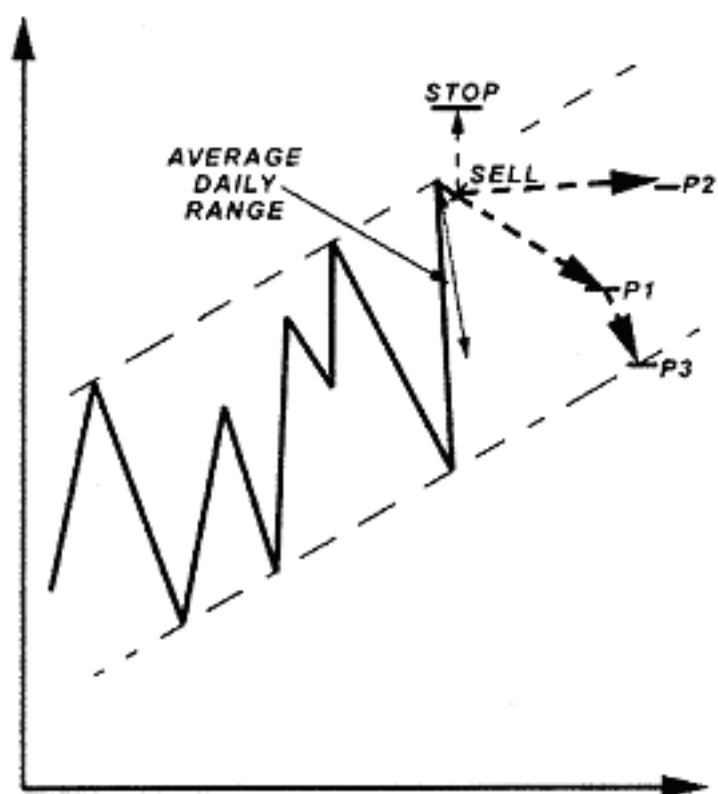
1. Brief situation description:	The market has formed an inclined channel, which can be identified on hourly and daily charts.			
2. Currency, recommended for trade:	All majors and crosses.			
3. Trade characteristics:	Basic (conservative).			
4. Trade (entry point) suggestions:	Enter the market at the lower border of an ascending channel or at the upper border of a descending one. The position is taken in the direction towards the opposite side of a channel.			
5. Entry time:	Any time.			
6. Entry execution:	Limit order or market order.			
7. Stop-loss placed:	Right behind the closest border of the channel (10-20 pips).			
8. Reverse if stops triggered:	Recommended (automatic entry-stop order).			
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. The opposite side of the channel. (P3)	4. Other.
10. Potential profit estimation:	N/A			
11. Profit probability evaluation:	"Above average"			
12. Risk evaluation:	"Below average"			
13. P/L Ratio:	"Positive"			
14. Potential clues in favor of the open position:	N/A			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A			
16. Additional notices, recommendations and trading tips:	Such a trade can also be turned into a longer-term position with technical targets located outside of a one-day trading range it is open in the direction of a current longer-term trend. (Be careful, because a break usually follows soon after the fourth touch of a line.) If the stops were triggered, then it is possible that the initial loss will be covered very soon after the actual break of the borderline. A position reverse may turn into a trade based on the Template # 2.3. (C)			



Template # 2.3 B

1. Brief situation description:	<i>The market has formed an inclined channel, which can be identified on hourly and daily charts.</i>			
2. Currency, recommended for trade:	<i>All majors and crosses.</i>			
3. Trade characteristics:	<i>Optional.</i>			
4. Trade (entry point) suggestions:	<i>Enter the market at the approach to the lower side of a descending channel or at the upper border of an ascending one. (The position is taken in the direction towards the opposite side of a channel).</i>			
5. Entry time:	<i>Any time.</i>			
6. Entry execution:	<i>Limit order or market order.</i>			
7. Stop-loss placed:	<i>Right behind the closest border of the channel (10-20 pips).</i>			
8. Reverse if stops triggered:	<i>Not recommended (if no other technical reason present).</i>			
9. Target(custom choice):	<i>1. Average daily range. (P1)</i>	<i>2. End of the day. (P2)</i>	<i>3. The opposite side of the channel. (P3)</i>	<i>4. Other technical level inside the channel.</i>
10. Potential profit estimation:	<i>N/A</i>			
11. Profit probability evaluation:	<i>"Average"</i>			
12. Risk evaluation:	<i>"Average"</i>			
13. P/L Ratio:	<i>"Positive"</i>			
14. Potential clues in favor of the open position:	<i>N/A</i>			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>N/A</i>			
16. Additional notices, recommendations and trading tips:	<i>Such a trade can also be turned into a longer-term position with technical targets located outside of a one-day trading range. Usually the true reverse can be expected if the market fails to reach the support of a descending channel or a resistance of an ascending one. So, the trade described in this template is a "counter trade" against the current trend, and the profit had better be taken as soon as possible.</i>			

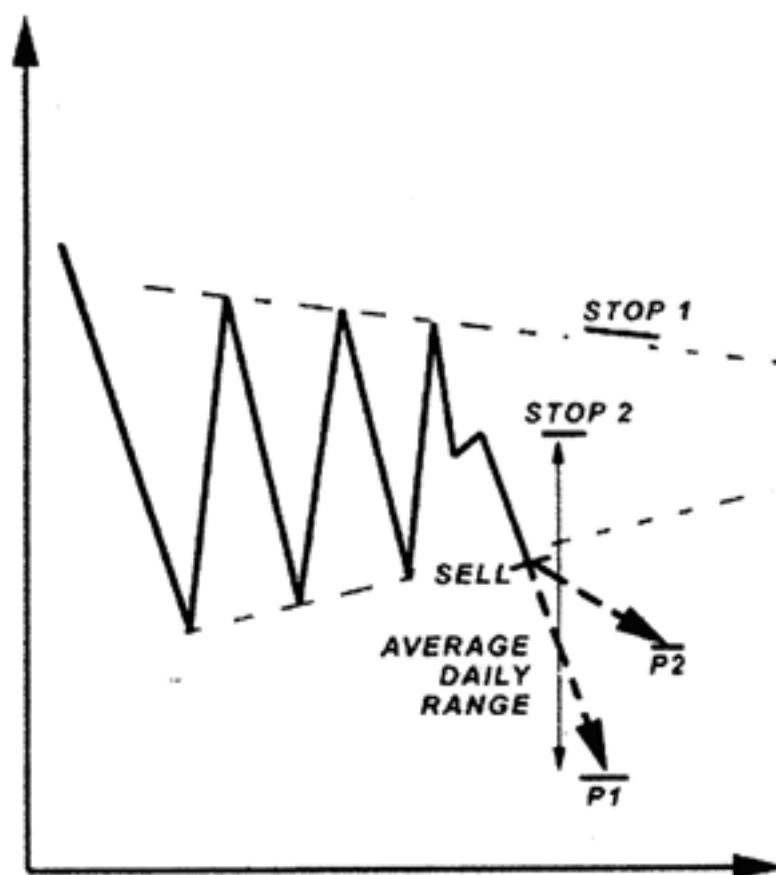
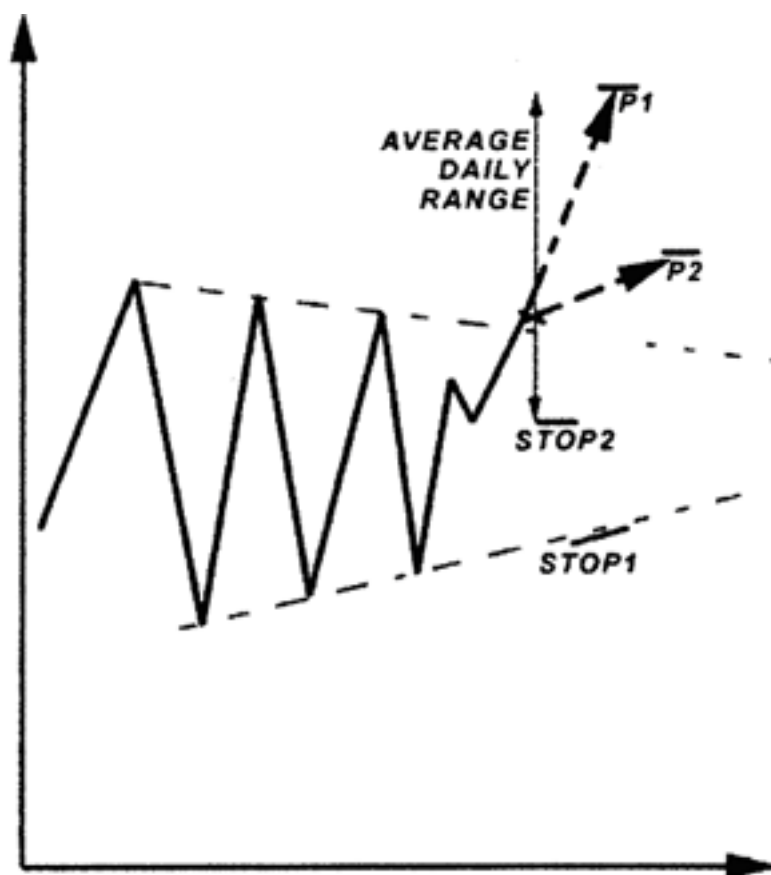
2.3 B



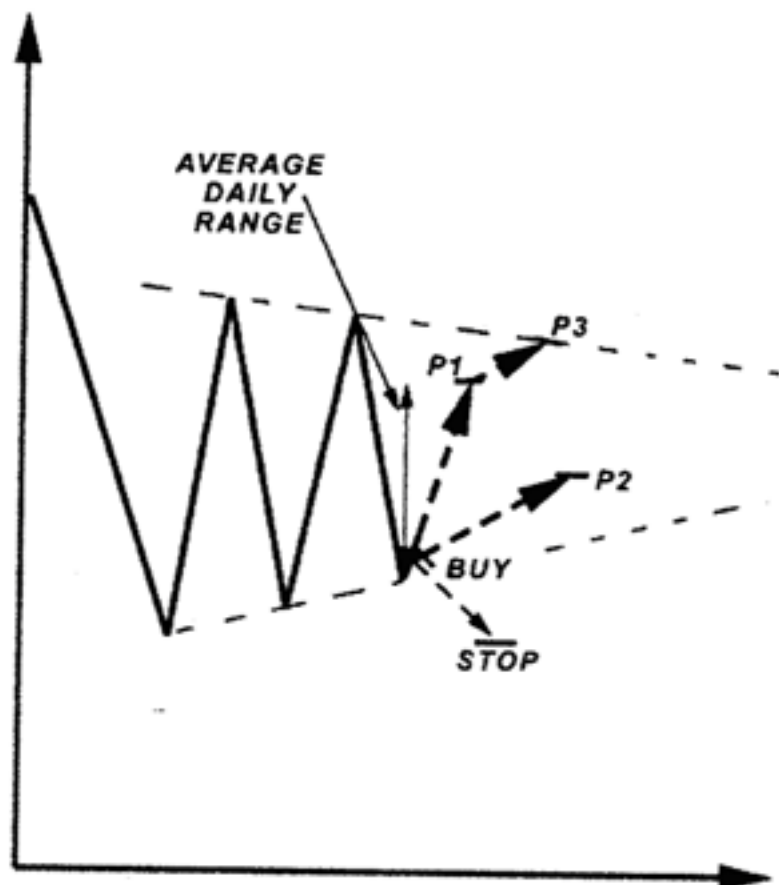
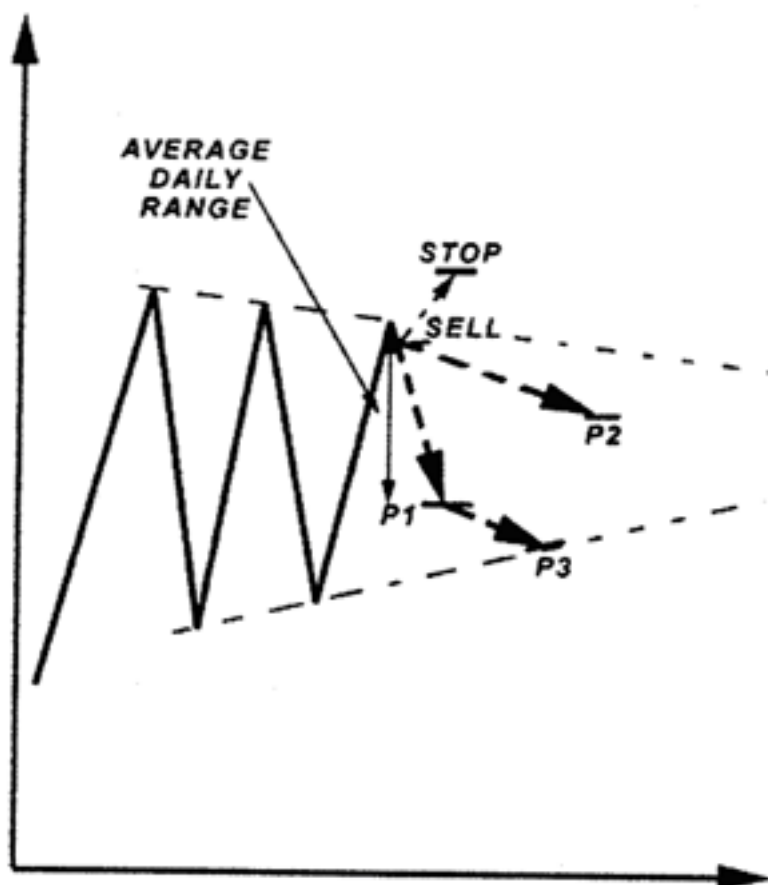
Template #2.3(C). Inclined channel.

1. Brief situation description:	<i>The market has formed an inclined channel, which can be identified on hourly and daily charts. This trade would be the continuation of the one described in the Template #2.3. (A) (In case stops were triggered and the position reversed). It can also be traded independently, and the signal to enter the market would be the break of the border of such a channel.</i>		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Basic (conservative).		
4. Trade (entry point) suggestions:	Enter the market on the break of the lower side of and ascending channel or at the upper border of a descending one.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the current day range (if close enough).	2. Other technical level inside the current day range.	
8. Reverse if stops triggered:	Recommended (automatic entry-stop order) at the opposite side of a current day range.		
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. Other.
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	“High”		
12. Risk evaluation:	“Low”		
13. P/L Ratio:	“Neutral” to “Positive”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	<i>Such a trade can also be turned into a longer-term position with technical targets located outside of the day trading range. In this case, the position was open following a signal indicating potential trend change, and might be kept for longer term.</i>		

2.4 A



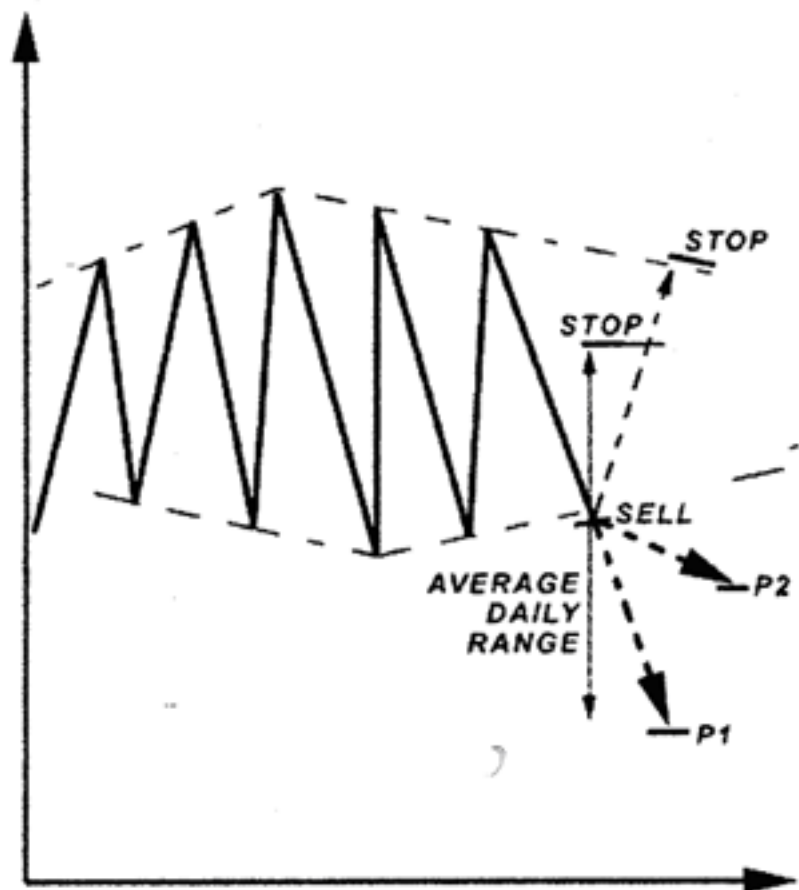
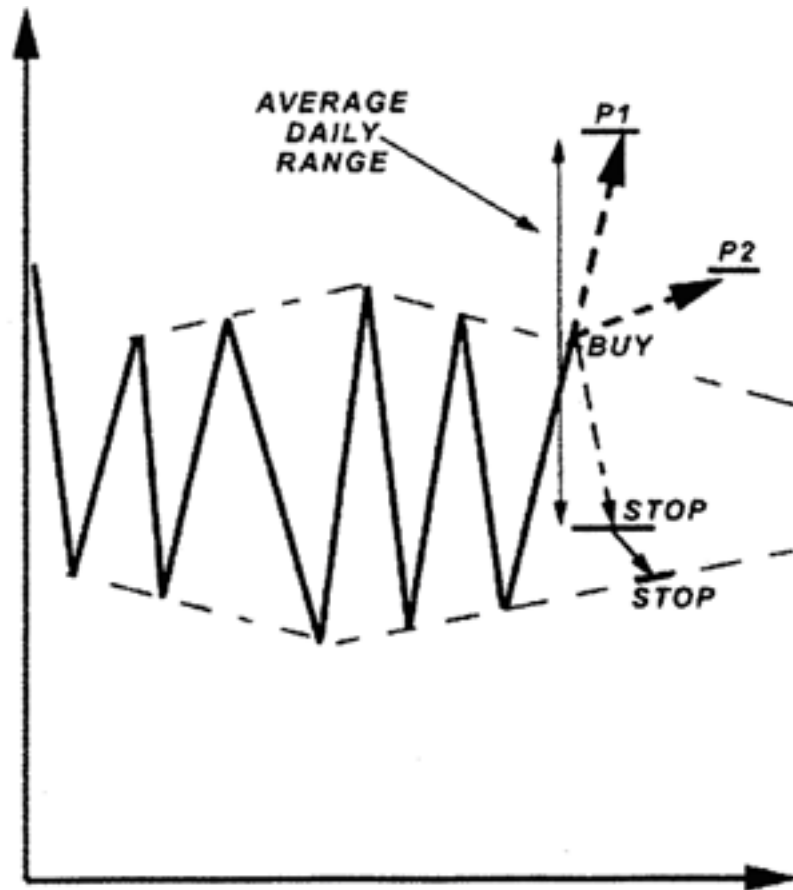
2.4 B



Template #2.5(A). Diamond formation.

1. Brief situation description:	<i>The market has formed a diamond, which can be identified on intra day or daily charts. Since the diamond can be considered as two triangles merged together, the recommendations are basically the same as in the case of a regular triangle. See template #2.4. (A).</i>			
2. Currency, recommended for trade:	All majors and crosses.			
3. Trade characteristics:	Basic (conservative).			
4. Trade (entry point) suggestions:	Enter the market on the break of either side of a diamond.			
5. Entry time:	Any time.			
6. Entry execution:	Entry-stop order.			
7. Stop-loss placed:	1. The opposite side of the triangle (if it's narrow enough)	2. The opposite side of current day range (if close enough).	3. The technical level inside the current day ranges (if choice #2 is outside the acceptable risk level).	4. Other.
8. Reverse if stops triggered:	Recommended (automatic entry-stop order) in cases 1&2.			
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. Other.	
10. Potential profit estimation:	N/A			
11. Profit probability evaluation:	"High"			
12. Risk evaluation:	"Low"			
13. P/L Ratio:	"Neutral" to "Positive"			
14. Potential clues in favor of the open position:	The trade is easy to plan in advance, since there is always s enough time to identify the triangle and to make a sufficient trading plan. Also, the false break is mostly as good as a true one and indicates the market's intention to choose the opposite direction for the next move, which is also important for planning of the next trade.			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A			
16. Additional notices, recommendations and trading tips:	Thank God, a diamond is a rare formation. The first half of it could be a real disaster for a trader, since It represents a broadening triangle, which is very difficult to identify before it's fully formed and very difficult to trade on. The rest is much easier, and no particular problem with trading on diamond should arise. It has to be remembered that usually a break follows a fourth touch of a diamond's second half borderline. Such a trade can be turned into a longer-term position with technical targets located outside the day trading range, if a particular diamond is big enough.			

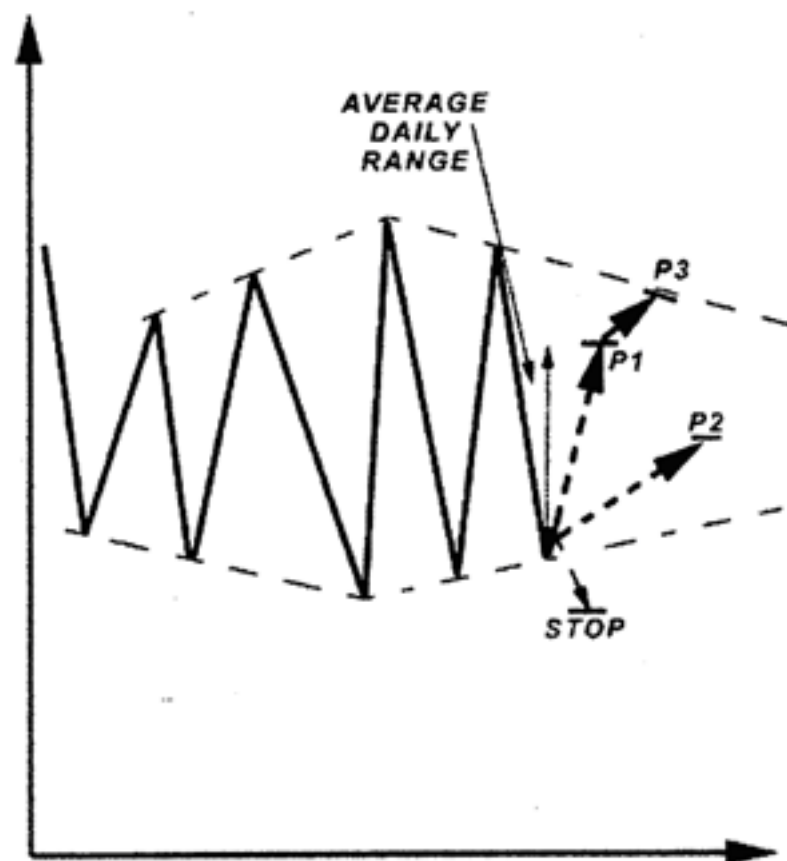
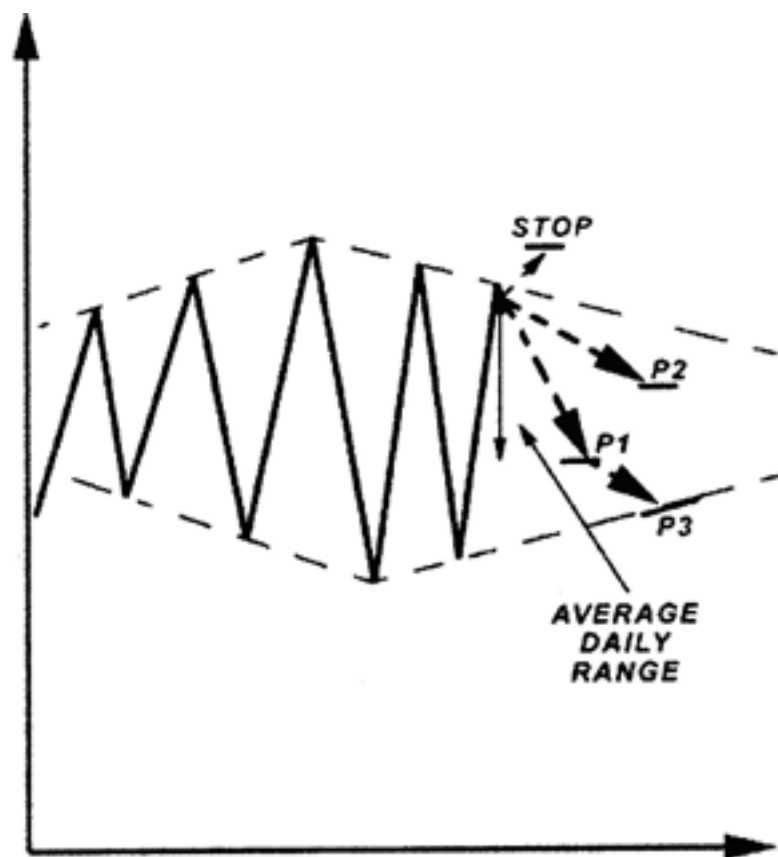
2.5 A



2.5 B Diamond formation.

1. Brief situation description:	<i>The market is forming a potential diamond formation, which can be identified on hourly or daily charts. Such a conclusion can be made only after the market has already formed the left side of the formation (which is nothing but a broadening triangle) and at the moment is forming a second half of the formation. The second half is also a triangle, but a regular one. So, the recommendations for a trade are pretty the same as in the case of a regular triangle. See template #2.(B).</i>		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Trade of opportunity.		
4. Trade (entry point) suggestions:	Enter the market at the projected point where the third touch of the second side of the triangle (second diamond part) takes place. The position should be open in the direction towards the opposite side of the formation.		
5. Entry time:	Any time.		
6. Entry execution:	Limit or market order.		
7. Stop-loss placed:	20 pips behind the nearest borderline, which is forming a triangle.		
8. Reverse if stops triggered:	Recommended (automatic entry-stop order).		
9. Target(custom choice):	1. Average daily range. (P1)	2. End of the day. (P2)	3. The opposite side of a diamond. (P3)
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	"Average"		
12. Risk evaluation:	"Average"		
13. P/L Ratio:	"Positive"		
14. Potential clues in favor of the open position:	The trade is easy to plan in advance, since there should be enough time to identify a triangle even while it is still in the forming process.		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	In case the stops are triggered and the position was reversed, the initial loss most likely will be covered soon enough (within the same day probably). It should also be remembered that usually a break follows a fourth touch of a triangle's borderline. Such a trade can be turned into a longer-term position with technical targets located outside of the day trading range, if a particular triangle is big enough.		

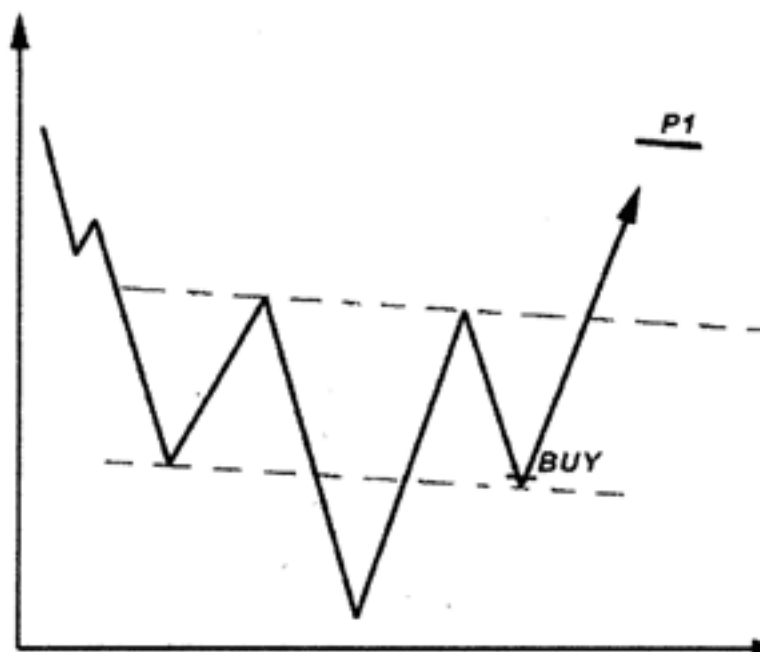
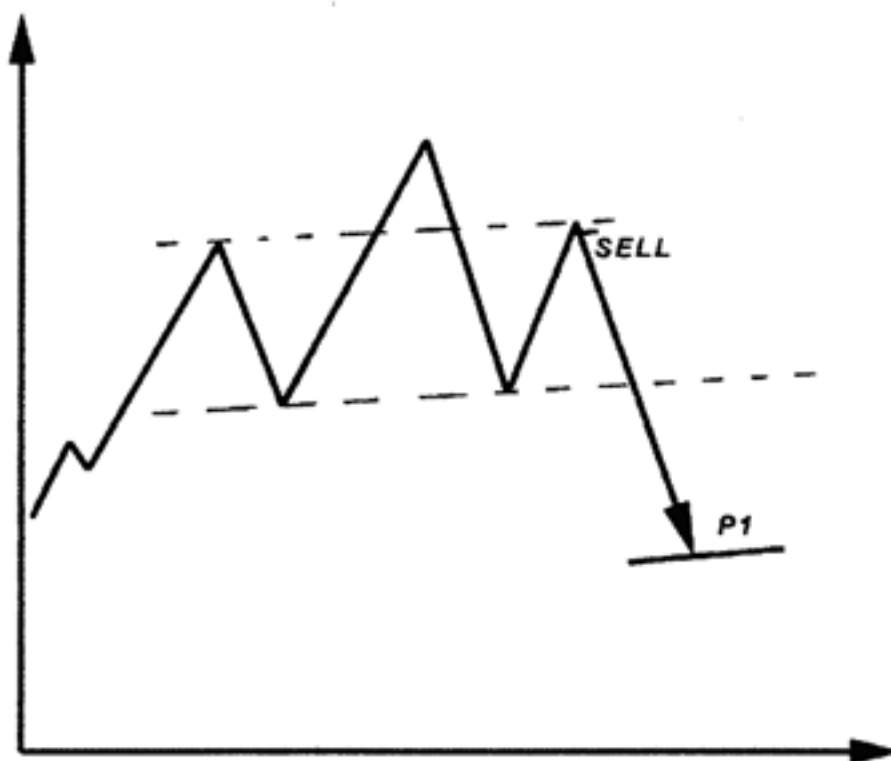
2.5 B



Template #2.6(A). “Head & Shoulders” formation.

1. Brief situation description:	<i>The market is forming a potential “Head and Shoulders” formation (inverted H&S formation as well) on hourly or daily charts, which cannot be identified as such since it is only a projection at the moment. The projection can be made at the moment when the market has already formed what may appear to be the left “shoulder,” the “head” and the first half of the right “shoulder.” It works best when seen on hourly and daily charts.</i>
2. Currency, recommended for trade:	<i>All majors and crosses.</i>
3. Trade characteristics:	<i>Trade of opportunity.</i>
4. Trade (entry point) suggestions:	<i>Enter the market at the projected point where the projected top (bottom) of the second “shoulder” could be formed.</i>
5. Entry time:	<i>Any time.</i>
6. Entry execution:	<i>Limit or market order.</i>
7. Stop-loss placed:	<i>Depends on the time frame and the scale of the potential formation. The trailing stop can also be used if some floating profit accumulated.</i>
8. Reverse if stops triggered:	<i>Not recommended.</i>
9. Target(custom choice):	<i>Measure objective. (P1)</i>
10. Potential profit estimation:	<i>N/A</i>
11. Profit probability evaluation:	<i>“Below average”</i>
12. Risk evaluation:	<i>“Above average”</i>
13. P/L Ratio:	<i>“Positive”</i>
14. Potential clues in favor of the open position:	<i>N/A</i>
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>This trade is not easy to plan in advance. A good imagination should help, but, from the other side, it can be excessive too. The trade also requires a lot of practical experience from a trader.</i>
16. Additional notices, recommendations and trading tips:	<i>In case successful entry, the profit usually is very significant, especially if to enter the position in accordance with a bigger scale charts. It is rather recommended for a longer-term positional trading than for an intra day trade.</i>

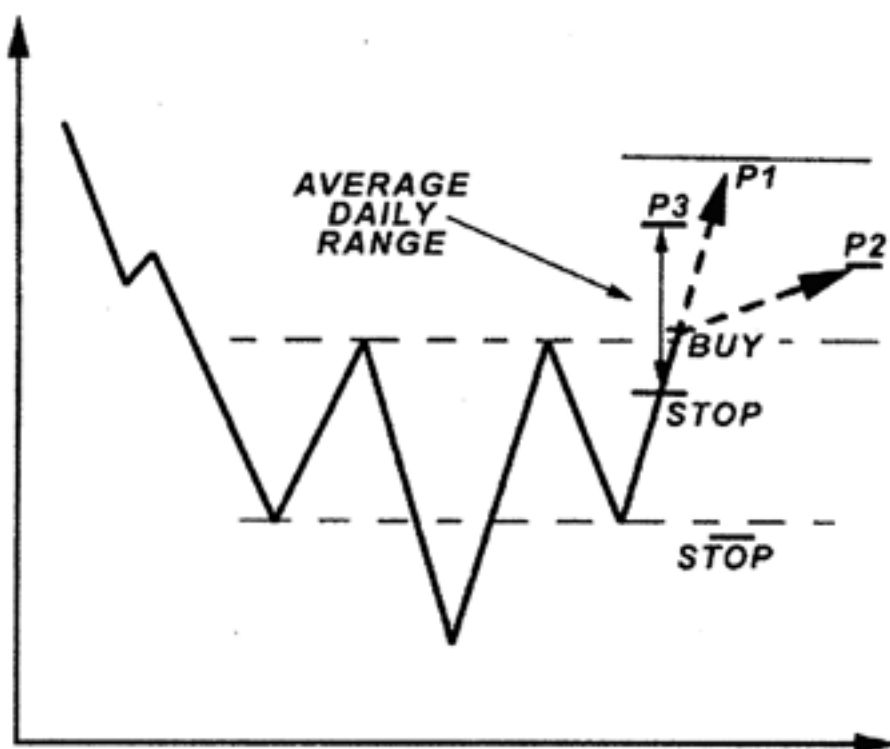
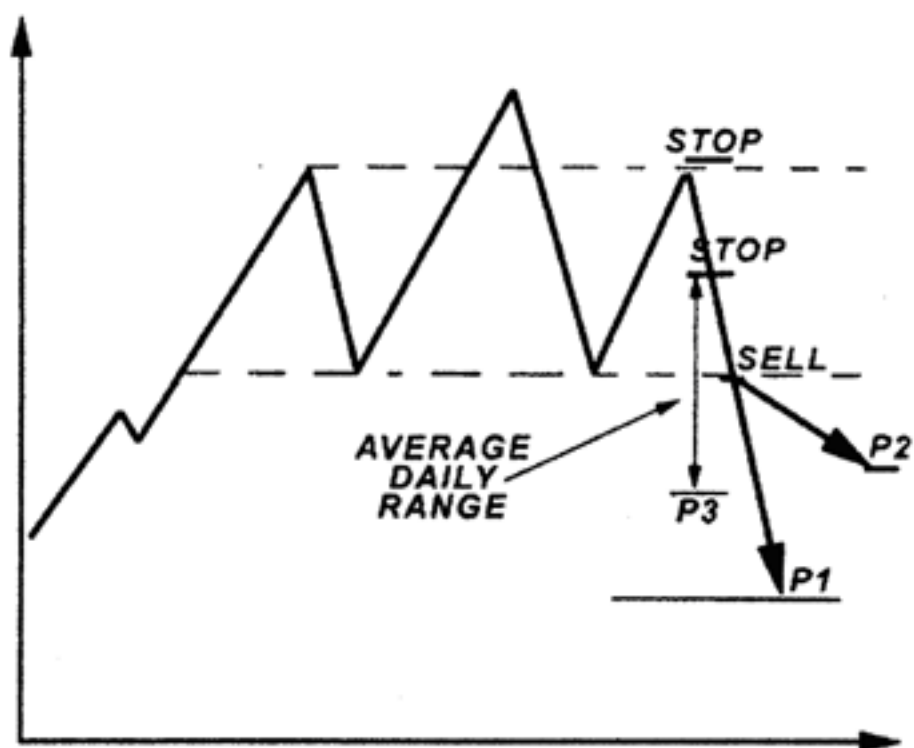
2.6 A



Template 2.6(B). “Head & Shoulders” formation.

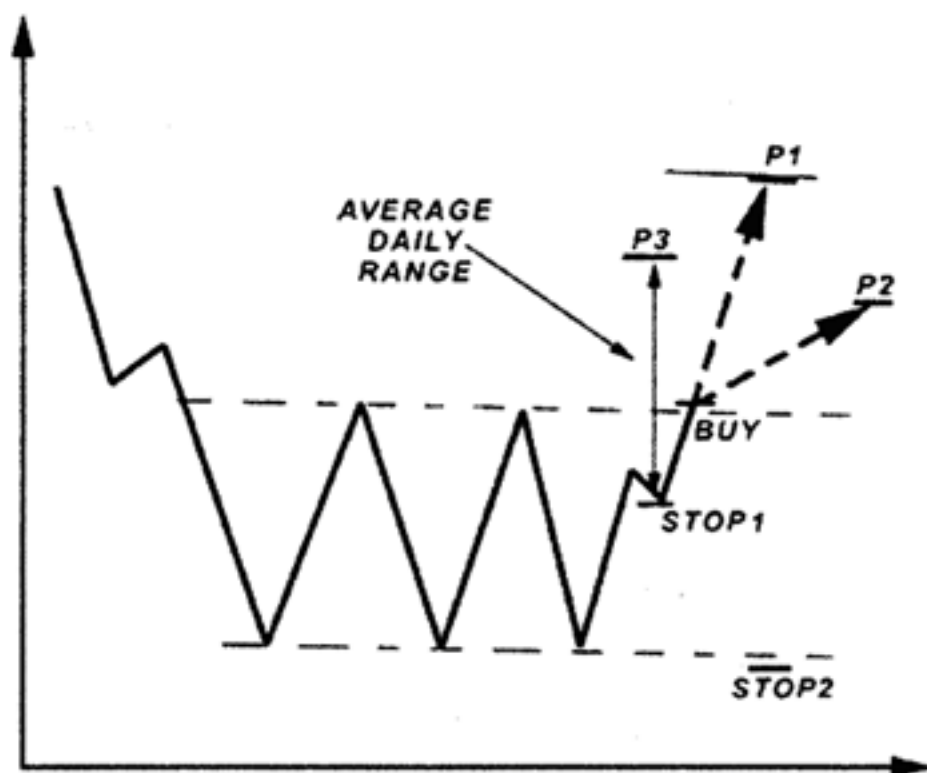
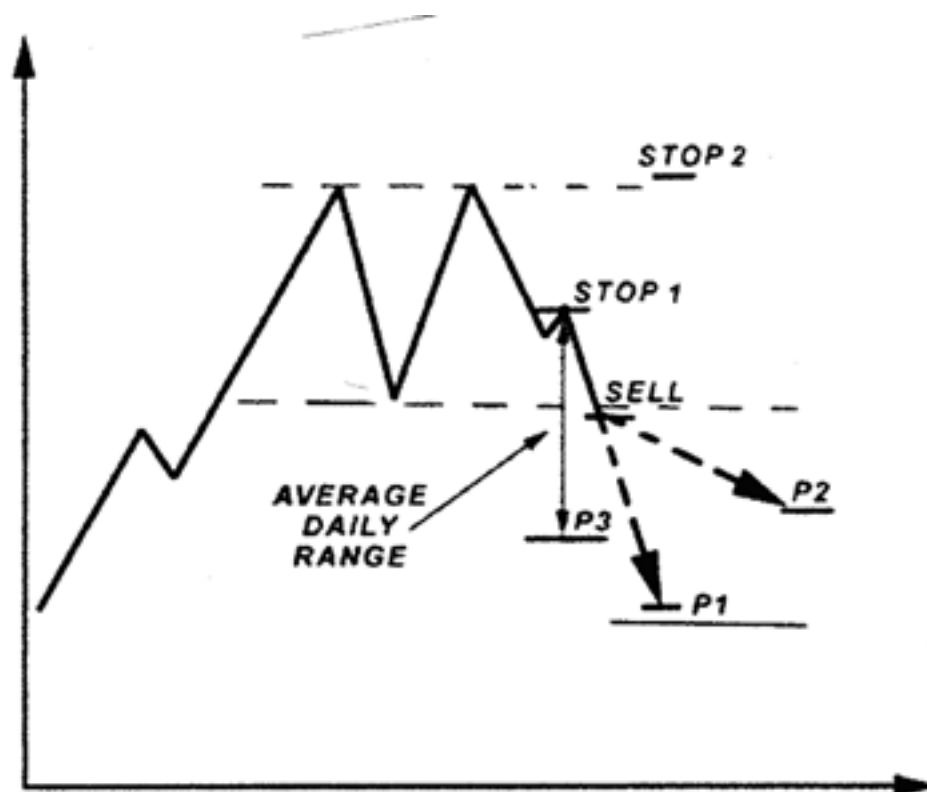
1. Brief situation description:	A “Head and Shoulders” formation (inverted H&S formation as well) is fully formed on hourly or daily charts.			
2. Currency, recommended for trade:	All majors and crosses.			
3. Trade characteristics:	Classic (textbook style).			
4. Trade (entry point) suggestions:	Enter the market on the break of the neckline.			
5. Entry time:	Any time.			
6. Entry execution:	Entry-stop order.			
7. Stop-loss placed:	1. The opposite side of the day range.		2. Above (below) the top (bottom) of the right shoulder.	
8. Reverse if stops triggered:	Recommended.			
9. Target(custom choice):	1. Measure objective. (P1)	2. End of the day. (P2)	3. Average daily range. (P3)	4. Other.
10. Potential profit estimation:	N/A			
11. Profit probability evaluation:	“Average”			
12. Risk evaluation:	“Average”			
13. P/L Ratio:	“Positive”			
14. Potential clues in favor of the open position:	N/A			
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A			
16. Additional notices, recommendations and trading tips:	Since this formation is classic (that means it is widely known and easy recognizable), the chance that the market will behave the way exactly as it’s described in TA textbooks is questionable. I don’t usually trade on it without having some other reasons to enter a position at the break of a neckline of H&S. However, sometimes it works and therefore cannot be ignored completely. Usually the harder the identification, the better it works.			

2.6 B



Template #2.7. “Double (triple) Top (bottom)” formation.

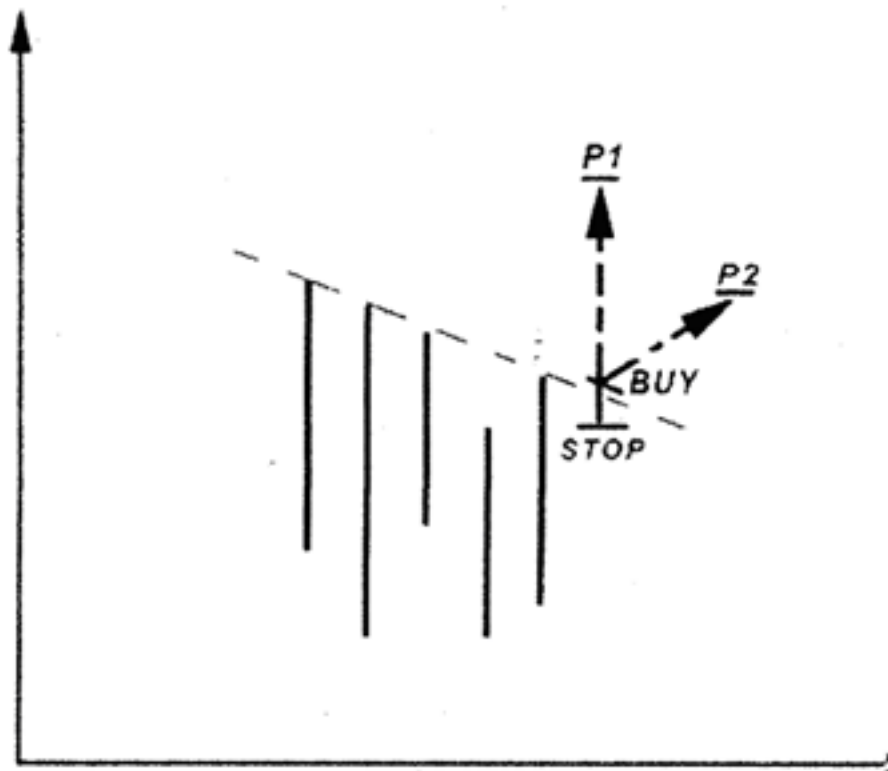
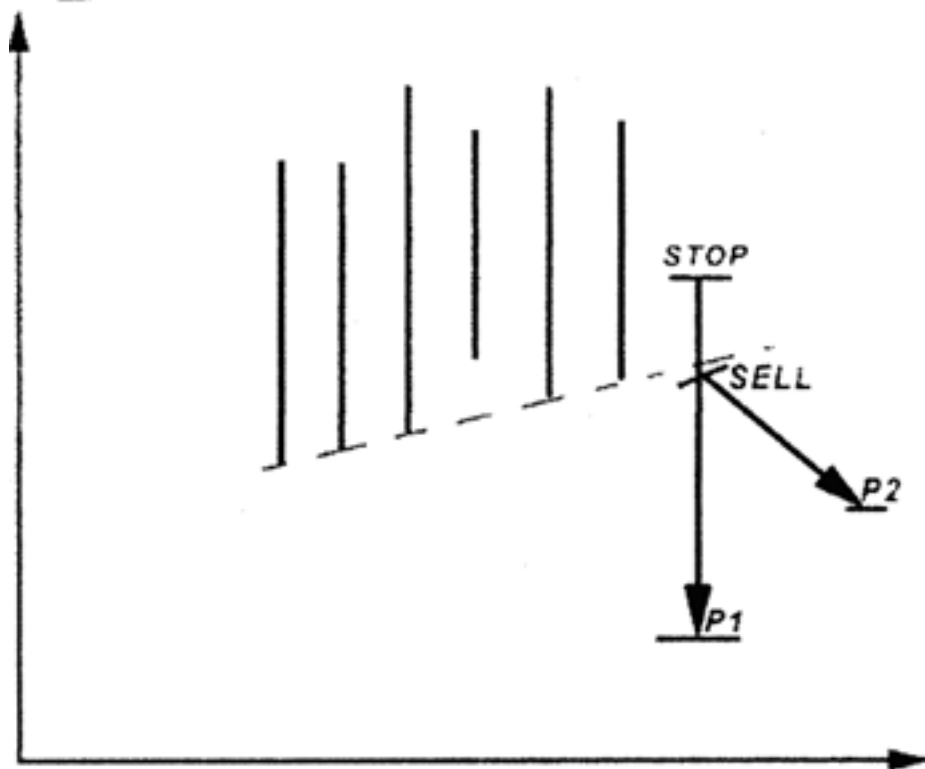
1. Brief situation description:	A “Double (triple) Top (bottom)” formation is fully formed on hourly or daily charts.		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Classic (textbook recommended).		
4. Trade (entry point) suggestions:	Enter the market on the break of the neckline.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the day range.	2. Above (below) the line drawn through both tops (bottoms).	3. Other.
8. Reverse if stops triggered:	Recommended.		
9. Target(custom choice):	1. Measure objective. (P1)	2. End of the day. (P2)	3. Average daily range. (P3)
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	“Below average”		
12. Risk evaluation:	“Above average”		
13. P/L Ratio:	“Positive”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	Same thing as with the H&S formation. This formation is also a classic one, and the chance to see the exact behavioral pattern prescribed by TA is slim. I don't usually trade on it without having some other reasons to enter a position at the neckline break.		



Template # 3.1(A). “Comb” on daily charts.

1. Brief situation description:	<i>The market has formed on daily charts a specific formation which I call a “comb.” (This is a sort of short-term trend seen on any time frame charts including intra day, daily and weekly.)</i>		
2. Currency, recommended for trade:	<i>USD/CHF, USD/JPY, EUR/USD, EUR/JPY and other Euro crosses.</i>		
3. Trade characteristics:	<i>Basic (conservative).</i>		
4. Trade (entry point) suggestions:	<i>Take a position in the direction of the move on the break of the trend line limiting a “comb” from one side: 1. Buy on the break of descending line, OR 2. Sell on the break of the ascending line.</i>		
5. Entry time:	<i>Any time.</i>		
6. Entry execution:	<i>Entry-stop order.</i>		
7. Stop-loss placed: (Cannot be chosen in accordance with a trader’s individual situation and preferences. Money management principles must apply.)	<i>On the opposite side of the current day range. (Above the previous day “High” or below the previous day “Low.”)</i>		
8. Reverse if stops triggered:	<i>Recommended. (Automatic and simultaneous with stops.)</i>		
9. Target(custom choice):	<i>1. Average daily range. (P1)</i>	<i>2. End of the day. (P2)</i>	<i>3. Other.</i>
10. Potential profit estimation:	<i>N/A</i>		
11. Profit probability evaluation:	<i>“Average” to “High”</i>		
12. Risk evaluation:	<i>“Average” to “Low”</i>		
13. P/L Ratio:	<i>“Positive”</i>		
14. Potential advantages in favor of the open position:	<i>1. The position was open in the direction of the medium trend.</i>	<i>2. The position was open in the direction of the main move of the previous day.</i>	
15. The most probable complications, disadvantages and risk warnings, and advice to avoid them:	<i>RW#1: The position was open against the direction of the medium-term trend.</i>	<i>A#1: Move your stops closer and place them above (below) the previous local extreme formed the same day.</i>	
	<i>RW#2: The position was open against the main move of the previous day.</i>	<i>A#2: Same as above.</i>	

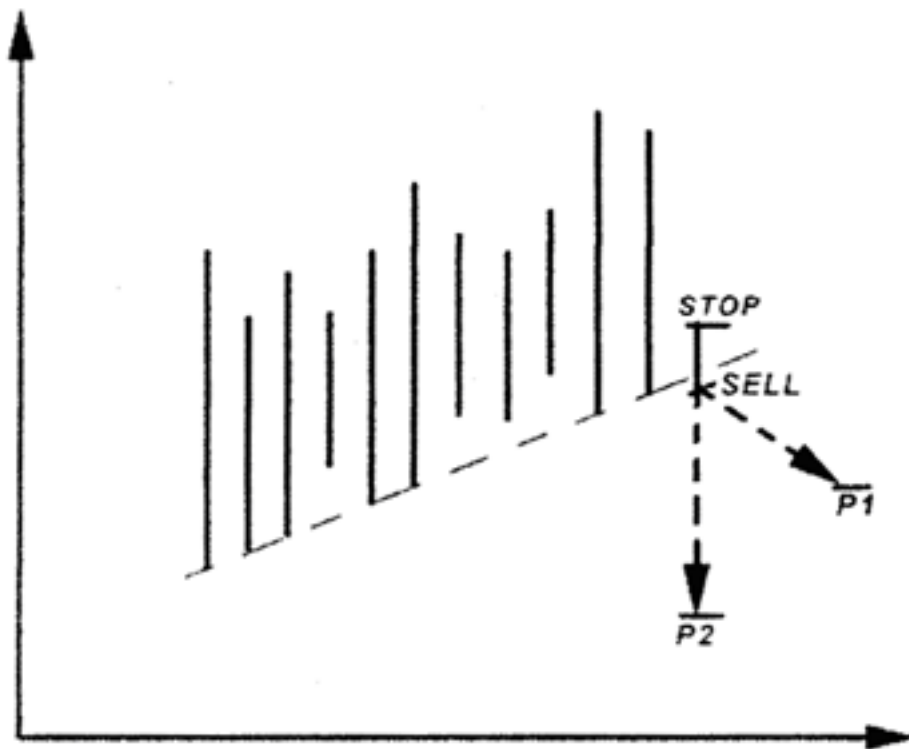
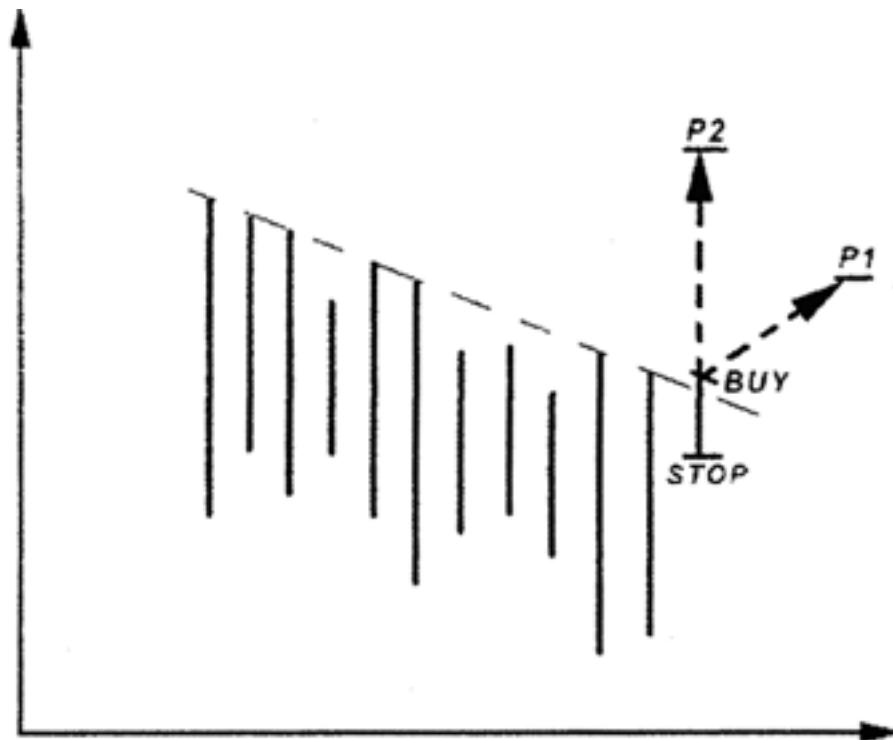
3.1 A



3.1 B

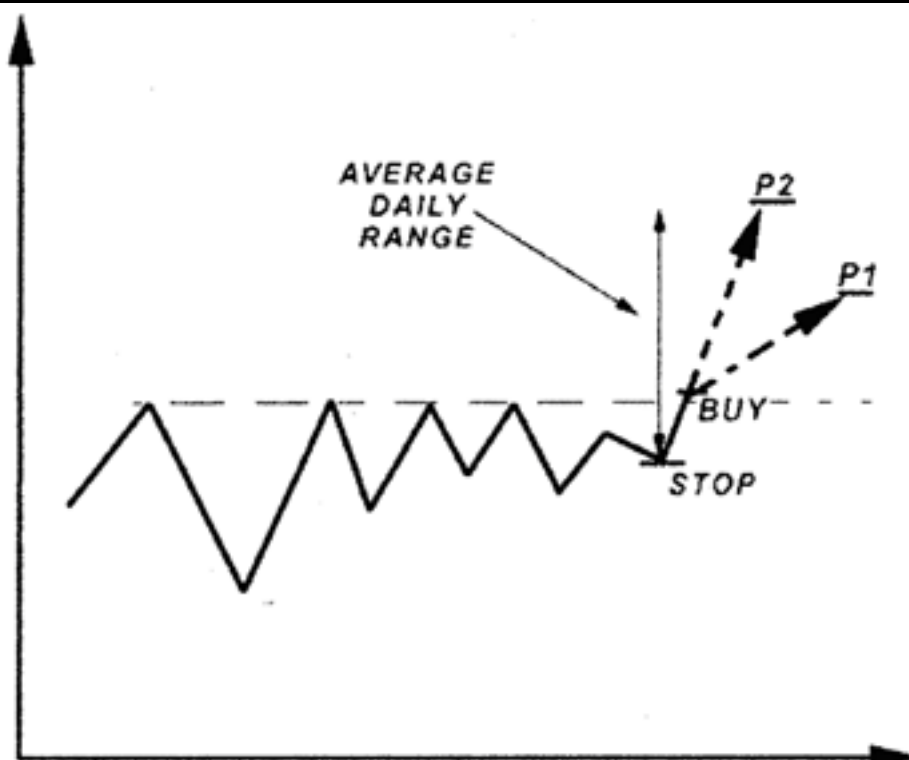
1. Brief situation description:	The market has formed on intra day charts a comb formation.		
2. Currency, recommended for trade:	USD/CHF, USD/JPY and some EUR crosses.		
3. Trade characteristics:	Optional (risky).		
4. Trade (entry point) suggestions:	Enter the market on the break of the line.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the day range.	2. The nearest technical level.	3. Other.
8. Reverse if stops triggered:	Recommended.		
9. Target(custom choice):	1. End of the day (P1)	2. Average daily range. (P2)	4. Other.
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	"Average"		
12. Risk evaluation:	"Average"		
13. P/L Ratio:	"Neutral"		
14. Potential clues in favor of the open position:	1. The position was open in the direction of the main move of the day. 2. The break of the line occurred simultaneously with forming of the new "Low" or new "High" of the day.		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	To trade "combs" on intra day basis is a bit problematic. It is better to trade having some other technical reasons to enter a position, because trading in limited time and space is always difficult for a trader. However, sometimes it works extremely well if you take profit at the right time.		

3.1 B



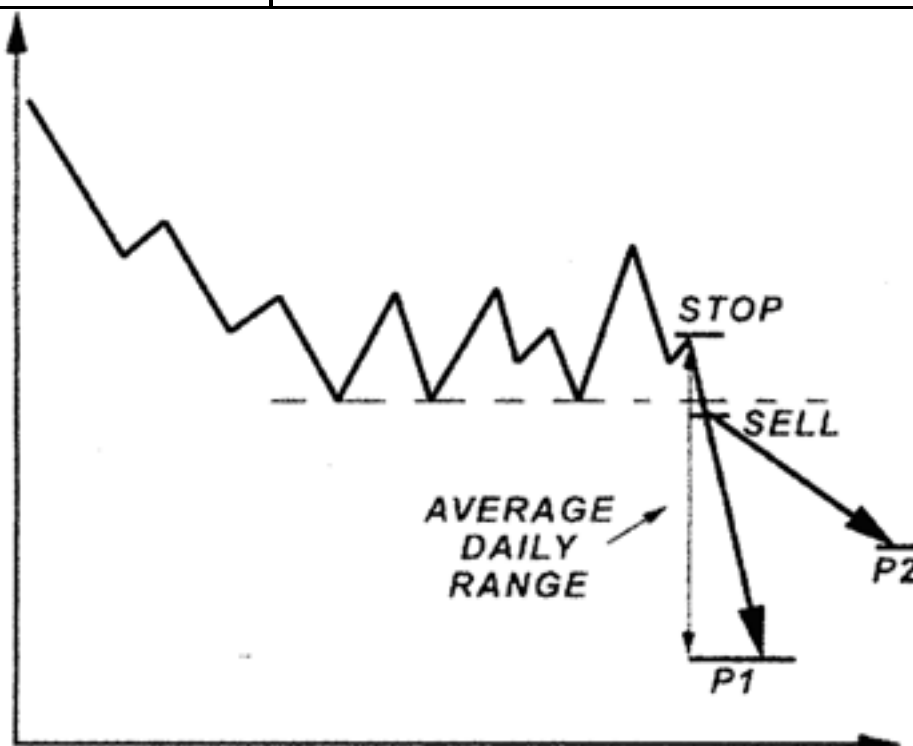
Template #3.2(A). “Flat surface” on daily charts.

1. Brief situation description:	A “flat surface” is formed on daily charts.		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Optional.		
4. Trade (entry point) suggestions:	Enter the market on the break of the surface.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the day range.	2. Other technical level.	
8. Reverse if stops triggered:	Possible.		
9. Target(custom choice):	1. End of the day (P1)	2. Average daily range. (P2)	4. Other.
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	“Average”		
12. Risk evaluation:	“Average”		
13. P/L Ratio:	“Neutral”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	Better when a position is open in the direction of the current medium-term trend. Also, some other reasons should support the idea of such a trade. However, if you trade on an intra day basis, the chance to make profit is quite acceptable. Can also be used for adding a position to another, profitable one.		



Template #3.2(B). “Flat surface” on intra day charts.

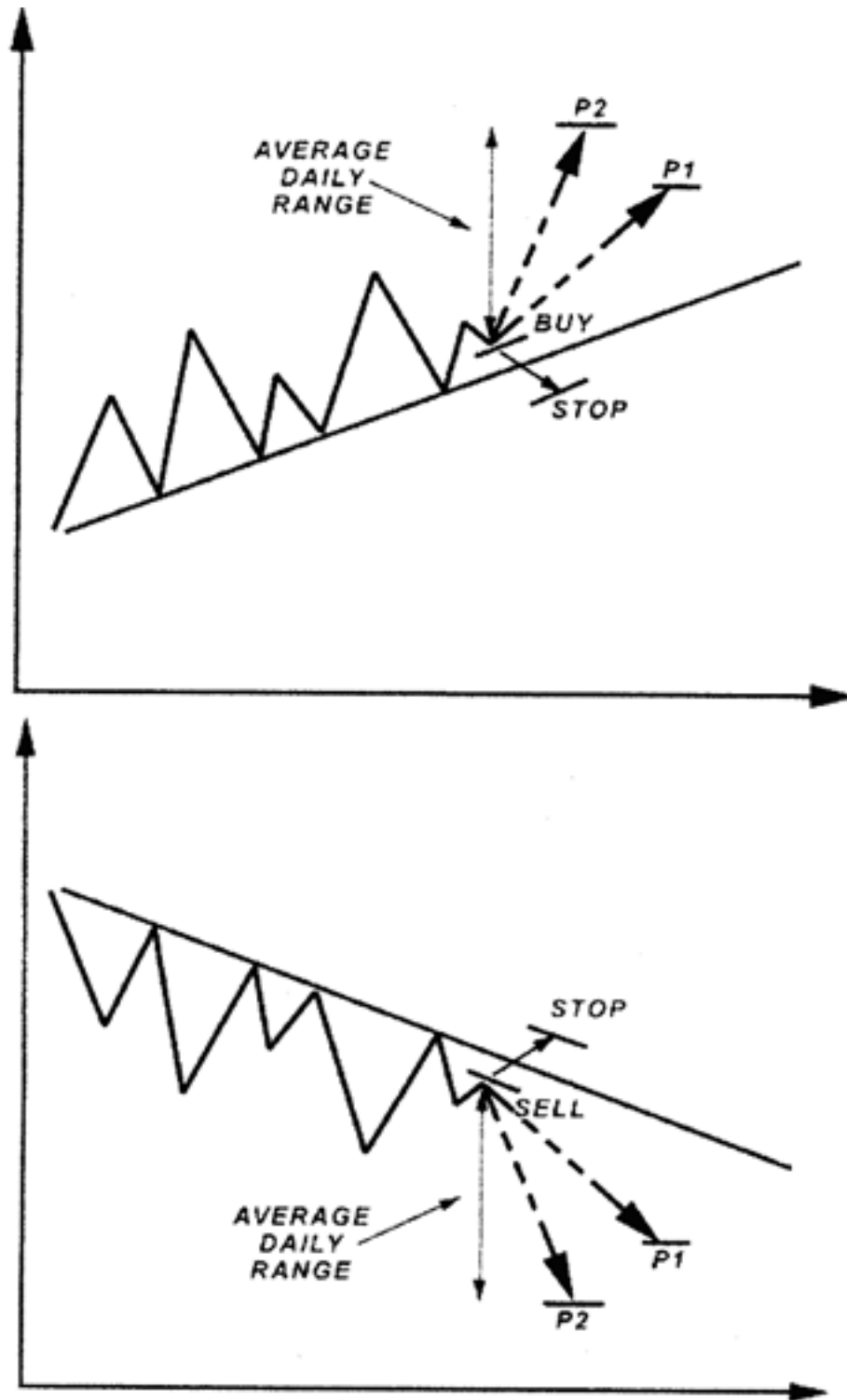
1. Brief situation description:	A “flat surface” is formed on intra day charts.		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Basic.		
4. Trade (entry point) suggestions:	Enter the market on the break of the formation.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the day range.	2. Other technical level.	
8. Reverse if stops triggered:	Recommended.		
9. Target(custom choice):	1. End of the day (P1)	2. Average daily range. (P2)	4. Other.
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	“Average”		
12. Risk evaluation:	“Average”		
13. P/L Ratio:	“Neutral”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	Better when a position is open in the direction of the current move. Usually supports the view that the move in this direction will happen during the day. If you trade on an intra day basis, the chance to make profit is quite acceptable. Can also be used for adding a position to another, profitable one.		



Template #3.3(A). Major trendline.

1. Brief situation description:	The market approaches the major trend line drawn through two (or more) absolutely extreme points. (These should be the whole chart on one side from such a line and a totally free space on the other side.) The trade can be executed only on the approach to a supportive line of the up-trend or at the resisting line of a downtrend.		
2. Currency, recommended for trade:	All majors and crosses.		
3. Trade characteristics:	Basic.		
4. Trade (entry point) suggestions:	Enter the market 5-10 pips before the line in the direction, opposite to the direction of the move.		
5. Entry time:	Any time.		
6. Entry execution:	Limit or market order.		
7. Stop-loss placed:	Behind the line.		
8. Reverse if stops triggered:	Recommended. (Trailing stop can also be used.)		
9. Target(custom choice):	1. End of the day (P1)	2. Average daily range. (P2)	4. Other technical point or reason.
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	"Above average"		
12. Risk evaluation:	"Below average"		
13. P/L Ratio:	"Positive"		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	The bigger the number of points lying on such a line, the less the probability to commit a profitable trade. I prefer to trade this template when the market makes its third or (at the maximum) fourth approach to the line. In the case of the fourth approach, I usually take profit early, using some market's hesitation before such a line.		

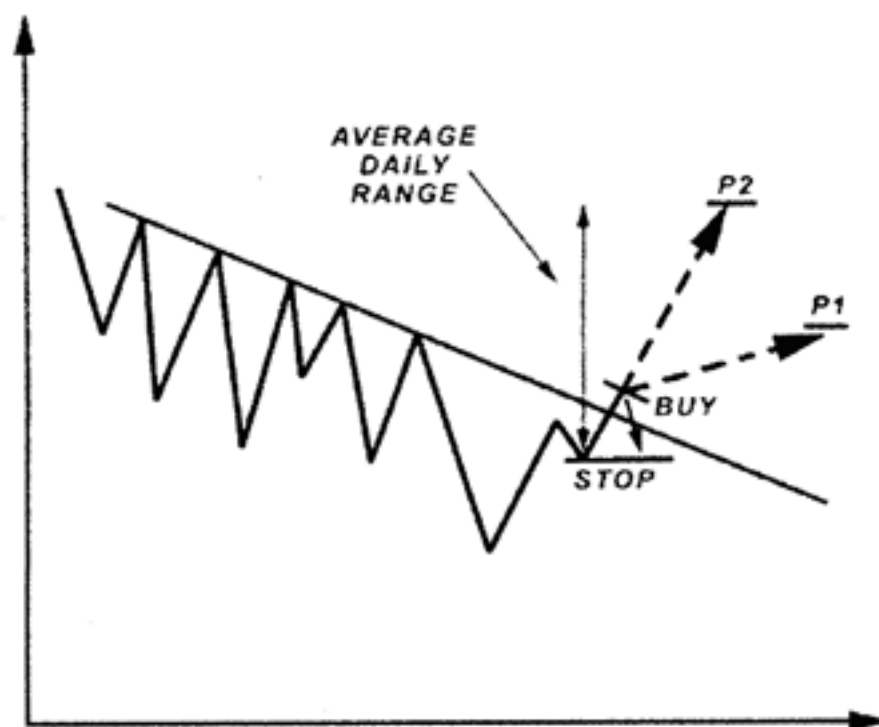
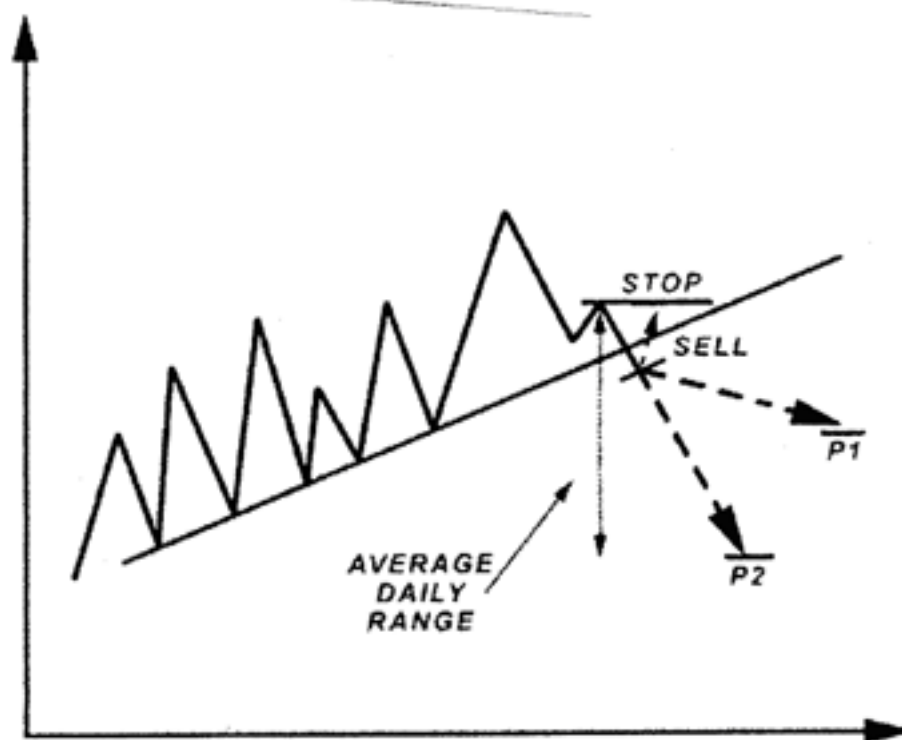
3.3 A



Template #3.3(B). Major trendline.

1. Brief situation description:	<i>The market breaks the major trend line drawn through three or more absolutely extreme points. (There should be the whole chart on one side from such a line and a totally free space on the other side.) The trade can be executed only on the approach to a supportive line of the up-trend or at the resisting line of a downtrend.</i>		
2. Currency, recommended for trade:	<i>All majors and crosses.</i>		
3. Trade characteristics:	<i>Basic.</i>		
4. Trade (entry point) suggestions:	<i>Enter the market 5-10 pips at the break of the line in the direction of the move.</i>		
5. Entry time:	<i>Any time.</i>		
6. Entry execution:	<i>Entry-stop order.</i>		
7. Stop-loss placed:	<i>1. The opposite side of the day range.</i>	<i>2. Other technical level.</i>	
8. Reverse if stops triggered:	<i>Recommended. (Trailing stop can also be used also.)</i>		
9. Target(custom choice):	<i>1. End of the day (P1)</i>	<i>2. Average daily range. (P2)</i>	<i>4. Other technical point.</i>
10. Potential profit estimation:	<i>N/A</i>		
11. Profit probability evaluation:	<i>“Above average”</i>		
12. Risk evaluation:	<i>“Below average”</i>		
13. P/L Ratio:	<i>“Positive”</i>		
14. Potential clues in favor of the open position:	<i>N/A</i>		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	<i>N/A</i>		
16. Additional notices, recommendations and trading tips:	<i>The bigger the number of points lying on such a line, the greater the probability to commit a profitable trade. I prefer to trade this template on the fourth or larger approach to the line. The position can also be turned into a longer-term positional trade, since the break of such a line indicates the possibility of a trend change.</i>		

3.3 B



Template. Trading on CB intervention.

1. Brief situation description:	There is a CB intervention to support an undervalued currency in progress.		
2. Currency, recommended for trade:	The undervalued currency and all its crosses.		
3. Trade characteristics:	Trade of opportunity.		
4. Trade (entry point) suggestions:	Enter the market on the run in the direction of the move using entry stops.		
5. Entry time:	Any time.		
6. Entry execution:	Entry-stop order.		
7. Stop-loss placed:	1. The opposite side of the day range.	2. Other technical level.	
8. Reverse if stops triggered:	Not recommended.		
9. Target(custom choice):	1. End of the day (P1)	2. Other technical point. (P2)	3. 100-300 pips. (P3)
10. Potential profit estimation:	N/A		
11. Profit probability evaluation:	“Very high”		
12. Risk evaluation:	“Very low”		
13. P/L Ratio:	“Positive”		
14. Potential clues in favor of the open position:	N/A		
15. Possible complications, disadvantages and risk warnings, and advice to avoid them:	N/A		
16. Additional notices, recommendations and trading tips:	The intervention always takes place in support of an undervalued currency. Since it always goes against the trend and the most current move in exchange rates, it would be logical to start a trade by placing entry stops above the current “High” as soon as the market price moves down 50-60 pips from it. Then, on the way down, a trailing stop can be used. It has to trail the market 60-100 pips above the most current “Low.” After the intervention has begun and is confirmed, a trailing stop can be used to assure the profit and protect from unexpected losses.		

Intervention

